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## Inventing a Capitalist Region: Upper Silesia/Poland - Economic Transformations in Old-Industrial and Post-Socialist Spaces of Central and Eastern Europe

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**Inventing a Capitalist Region: Upper Silesia/Poland  
Economic Transformations in Old-Industrial and Post-Socialist  
Spaces of Central and Eastern Europe**

Thesis Submitted for the Degree of Doctor of Philosophy (PhD)

**The Open University, Milton Keynes, UK  
Geography Discipline, Faculty of Social Sciences**

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## **Abstract**

### **Inventing a Capitalist Region: Upper Silesia/Poland**

#### **Economic Transformations in Old-Industrial and Post-Socialist Spaces of Central and Eastern Europe**

The thesis explores economic, political and social processes in former socialist countries with a case study in one of the biggest conurbations in Europe, Upper Silesia. The ongoing but selective economic processes of global and macro-regional economic integration have been identified as a main issue in geographical research. In particular the nexus between the global and the local seen as a dialectical relationship, composed of multiple and asymmetric interdependencies has stressed the necessity of utilising relational analysis in economic geography. The question emerges in what ways and to what extent increasing economic integration may lead to a socio-economic convergence of places or the development of 'indigenous capacities', spatial peculiarities and legacies to establish themselves in capitalist networks of production.

With empirical reference to the Polish conurbation of Upper Silesia and drawing on the analytical framework from Michael Storper's 'Holy Trinity' ("The Regional World", New York, 1997), this thesis analyses post-socialist urban and regional transformations from three angles. 1. While Storper analysed mainly 'successful' regions in the West, the research tries to identify the main challenges that face any simple attempt to adapt western (theoretical) approaches within a post-socialist, Central East European context. 2. The thesis then identifies the fabric of political-economic actors and the path dependent 'invention' of a region, here Upper Silesia, and analysis locally and regionally embedded and recombined informal institutions and their capacity for restructuring of an old industrial space. 3. While inter- and intra-regional competition is growing in an 'era of globalisation', the thesis finally investigates the scope for action and 'reflexive' interrelations between administrative, political and economic actors in an 'ordinary region' prior to the accession to the European Union.

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Christian Weis  
Paris, December 2006



# **Inventing a Capitalist Region: Upper Silesia/Poland**

Economic Transformations in Old industrial and Post-Socialist Spaces of Central and Eastern Europe

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# 1 Transitions and Transformations

The first transition period from planned to market economies in Central and Eastern Europe (CEE) has been perceived as traumatic.<sup>1</sup> The rush toward market systems was initially destructive, as production levels collapsed while inflation emerged, eroding the living standards of large segments of the population. A few years into the transition, the expected ‘blossoming landscapes’ remained a *fata morgana*, apart from a few ‘bright spots’ on the map of the ‘new Europe’.<sup>2</sup> The early second half of the 1990s improved the picture substantially, leading to “a U-shaped response of output, the initial decline in output followed by recovery” (Blanchard 1997:1). While growth rates declined again by the end of the 1990s and the beginning of the new decade, they gained a fresh momentum from 2003 on. However, while the ups and downs of macro-economic data might inform observers about general trends, they contribute little to an understanding of the mechanisms underpinning the development of the ‘post-socialist’ economies or the ways in which their institutional arrangements have changed.

The success of the last 15 years ‘in transition’ lags behind early expectations.<sup>3</sup> The shift from state control to pluralistic societies and internationally competitive market economies has been described as partial and “still far from being achieved” (Ekiert 2003:97), because “economic restructuring requires much more time than revolutionary political upheaval” (Turnock 1997:136). The material living standards of large parts of the population, notably

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<sup>1</sup> ‘Central and Eastern Europe’ is an inaccurate term, but mostly used for a block of former socialist countries including the Czech Republic, Hungary, Poland, and Slovakia (the so called Visegrad countries) and the three Baltic states Estonia, Latvia, and Lithuania. All of these countries joined the European Union (EU) on 1<sup>st</sup> May 2004. Usually, the ‘first transition period’ is understood to cover the years between 1989/90 and 1992/93, characterised by economic decline, an annual average contraction of real GDP between –3.1 per cent (Poland) and –20.0 per cent (Lithuania) (Hamilton 1999:137). However, this time classification is misleading as it suggests a ‘zero hour’ in 1989/90 and neglects the economic process prior to the fall of communist regimes in Europe (see Kolodko 2000:19-27).

<sup>2</sup> The infamous *bon mot* ‘blossoming landscapes’ (‘blühende Landschaften’) was used by Chancellor Helmut Kohl in 1990 describing the economic future of the merged GDR. See Offe 1994 on why the East German journey from socialism to capitalism can be seen as unique in contrast to what has happened in other countries of CEE.

<sup>3</sup> The European Bank of Reconstruction and Development (EBRD) summarises the last 15 years in a six-page glossy brochure rather grimly: “Much has been achieved since then, even if transition has proved a long and sometimes painful process” (EBRD 2004:2).

the socially weakest groups, have significantly declined, at least during the first transition phase, when “the social costs [...] were quite high and were not distributed equally” (Adam 1999:7).<sup>4</sup> This has occurred even as opportunities and choices for the better-qualified and for younger population groups have expanded. The positive outcomes of the reforms have been less than expected, at least using official statistics. According to the European Bank for Reconstruction and Development (EBRD), the average real gross domestic product for CEE in 1998 was 72 per cent of that for the pre-transition level, with only the economies of Poland (118), Slovenia (103), and the Slovak Republic (100) above the 1989 level (EBRD 1999; see also Kolodko 2001:286). Far from experiencing rapid recovery over the last fifteen years, the transition economies have fallen further behind the former EU-15, a development that has largely come as a surprise to eastern and western observers.<sup>5</sup>

## **1.1 Shock Therapy versus Gradualism**

Early proposals for transition strategies moved around two poles.<sup>6</sup> The neo-liberal school of thought viewed the transition by analogy with the structural adjustment problems and ‘backwardness’ faced especially by so called less developed economies. The conceptual framework on ways of shaping the transition process was guided by modernisation theory, “adopted by the great majority of works concerned with the historical transition to a socio-economic and political system with the modern [...] image of the OECD-world” (Altvater 1998:591-592).

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<sup>4</sup> Adam notes that Poland has the highest level of poverty among the countries of CEE, an outcome primarily caused by the application of ‘shock-therapy’ (Adam 1999:35). Williams and Balaz (1999:183) claim that the privatisation process, “perhaps more than any other process, has contributed to the deepening of social inequalities, particularly in terms of wealth”. Detailed data for the 1990s are provided by Szulc 2000.

<sup>5</sup> By 1997, the GNP per capita level (EU-15 = 100) in Poland and Slovakia only reached 16 per cent, in Hungary 20 per cent, in the Czech Republic 23 per cent, while the level for the Baltic states is even lower: Lithuania 10 per cent, Latvia 11 per cent, and Estonia 15 per cent (Petrakos/Maier/Gorzalak 2000:4).

<sup>6</sup> At this point I will limit myself to the most influential schools of thought bearing in mind that many divergent concepts and diagnoses have been in contention. However, none of the ‘dissenters’ have exerted significant influence in policy advisory circles (for an overview see special edition of *East European Politics and Societies* 15(2001)2).

As a result, the macro-economic reforms applied to those economies – rapid and comprehensive liberalisation of prices, wages, foreign trade and capital markets; convertibility of exchange rates; conservative fiscal and monetary policies; privatisation of state assets and cut of state expenditure – were also expected to ‘cure’ the transition shortcomings. The transition approach that came to be labelled ‘shock therapy’ dominated the early debate and is still strongly promoted, particularly in Anglo-Saxon academic and policy advisory circles, as two of the main protagonists of this camp suggest.<sup>7</sup>

*“...both the economic logic and the political situation [in CEE] argue for a rapid and comprehensive process of transition. History in Eastern Europe [CEE] has taught the profound shortcomings of a piecemeal approach, and economic logic suggests the feasibility of a rapid transition” (Lipton/Sachs et al. 1990:99).*

Neo-liberal reforms aim to dissolve the socialist past by the fastest means possible. This school of thought insists that markets can spontaneously create a new world if the old can first be destroyed. This ‘revolutionary’ act is meant to be the most effective one in overcoming the socialist past and creating a capitalist future, “based not so much on inner efforts as it is on borrowing from abroad” (Poznanski 2001:211). Despite different political experiences and economic heritages in Central and Eastern Europe the neo-liberal approach has been presented as a hegemonic western economic blueprint for development, which it was believed could be applied in all transition economies “on the way to commonwealth” (Janos 2001:231). In practice, of course, the unexpected effects of these reforms produced different outcomes in the early stage of the transition process and let “Central and Eastern Europe became a crisis zone of modern Europe” (Berend 2001:251).

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<sup>7</sup> Jeffrey D. Sachs is frequently identified as one of the world's most influential economists and has advised more than 100 governments over the last 20 years. In 1989, Sachs advised Poland's Solidarity movement on economic reforms, and at the request of the Solidarity leadership, prepared a draft programme of radical economic transformation. He advised Poland's first post-communist government on the introduction of economic reforms between 1990 and 1991. Meanwhile, Sachs is heavily engaged in debates about the development in Africa, portraying “extreme poverty as a dreadful but not fatal disease, for which the only true remedy is a dose of strong western medicine” (John Vidal reviewing Sachs' latest book “The End of Poverty” in The Guardian Review, 23.04.2005:10).

Among the leading reformers Poland - the “guinea-pig for big bang/shock therapy” (Jeffries 2002:269) - has been frequently labelled as “the most successful transition economy in Eastern Central Europe” (Rapacki 2001:107), an achievement which led to full membership of GATT/WTO (1994/95), OECD (1996) and finally to the European Union on 1<sup>st</sup> May 2004 (see also Belka 2001; Michałek 1999).<sup>8</sup> The radical economic reform in Poland included an intertwined macro-economic stabilisation which was carried out alongside a major liberalisation programme and followed by extensive privatisation measures (Poznanski 1996). In January 1990, a stabilisation reform package - the Balcerowicz plan (named after the then Finance Minister) – was introduced and aimed at the achievement of internal and external market equilibrium and inflation containment. The anti inflation measures were a necessary (and unexpected) consequence of the impact of the initial reforms. A strict monetary and fiscal policy and an austerity incomes policy were introduced, so that prices were left uncontrolled alongside the restriction of money supply, increases in interest rates, and the imposition of credit ceilings. But freeing prices at a time when the economy was still monopolised, at the same time as cutting subsidies, alongside a devaluation of the domestic currency, led inflation to shoot up dramatically, while wage growth was running far behind inflation. This unintentional economic destabilisation was later labelled as a ‘transformation recession’ – an ‘inevitable decline on the way to equilibrium’.<sup>9</sup>

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<sup>8</sup> Adam Krzemiński, essayist and commentator of the Polish weekly 'Polityka', labels the EU-accession as a historic watershed, comparable with the adoption of Christianity 1000 years ago or the establishment of the Polish-Lithuanian Union in the 14<sup>th</sup> century. However, critics of the accession point instead to Poland's partitions in the 18<sup>th</sup> century as a starting point for historical comparison (Krzemiński 2003:36).

<sup>9</sup> In the second half of the 1990s when the return of growth seemed to confirm neo-liberal macro-economic policies, some economists tried to conceptualise the earlier slump and later upswing by blaming the rise of unemployment on the disjunction between the growth in private sector employment and the impact of the restructuring of the old state-owned enterprises. Once the growth of the private sector has taken off, then it is believed the problems will be solved. The conclusions drawn by these economists have been summarised relatively simply: “Private sector growth decreases unemployment. Restructuring of state firms increases output but increases unemployment. Unemployment in turn affects both private sector growth and the speed of restructuring” (Blanchard 1997:99). Slump and upswing are described as a logical and mathematical process with phase 1 creating high unemployment which prevents restructuring and phase 2, when “the economy proceeds along a balanced path” (ibid.), absorbing employment losses from the restructuring process. In the end, that “transition will indeed succeed seems plausible for Central European countries” (ibid:100).

All these measures, which were aimed at the renewal of market equilibrium, had the effect of impeding economic activities and led to a ‘double depression shock’, co-triggered by the dismantling of the Comecon area and initial macro-economic policies, accompanied by a simultaneous institutional vacuum (Gowan 1995:17-23). Fiscal policy which aimed at balancing the state budget by restricting tax breaks and subsidies had a similar effect. The austerity incomes policy, combined with a loss of purchasing power of savings because of increased prices, reduced the real purchasing power of the population and limited demand. The liberalisation of trade included the opening of the CEE economies to the world market, especially to the EU.<sup>10</sup> Foreign trade was also liberalised with the aim of creating a rational price system. The national currencies were devalued to increase exports and to limit imports and internal convertibility was introduced to make importers and exporters independent of state bureaucracy, so that they could make decisions on the basis of market considerations, as well as aiming to prevent alleged local and regional oligopolies from raising their prices in an extensive manner (Gowan 1995:14).

Liberalisation of imports made it possible for foreign products to compete in the domestic markets of the CEE countries, to put pressure on enterprises to adapt western technological development and to promote efficiency and competitiveness (Zielinska-Glebocka 1999:180). However, as a result many domestic enterprises, which could not stand the pressure, simply vanished from the market. On the other hand already in 1993 the newly emergent private sector contributed half of the Polish GDP, while its share of total employment was 60 per cent (Kondratowicz/Maciejewski/Morawski 1997:143). The ‘shock therapy’ reform package simultaneously included attempts to privatise state enterprises and to introduce new legislation – with uneven success, since the “formal

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<sup>10</sup> In the case of Poland – along similar lines to other CEE countries – the evolution of a common trade regime between the EU and Poland started already in 1989 with a Free Trade Agreement and was deepened with an Association Agreement in 1991, the first important step of economic integration which later led to full trade reciprocity and the start of negotiations on EU accession in 1997/98 (see Zielinska-Glebocka 1999:174-176). However, the 1990s were also characterised by protectionism on both sides including the implementation of tariffs and non-tariff barriers – but mostly in favour for the EU (Gowan 1995:24-28).



privatization of large enterprises has been slow and contentious, owing to factors such as political wrangling, powerful workers' councils and the desire to link privatization with pension reform" (Jeffries 2003:276). This tends to undermine any confident labelling of Poland as a neo-liberal 'model pupil'.<sup>11</sup> 'Privatisation' – and the breaking-down of 'artificially large units' – has been singled out as the primary issue of 'transition'. For Kornai, one of the most influential neo-liberal thinkers of post-communist change, transition is valued as a project of utopian social engineering.

*"For privatization to work, you need hundreds of thousands of small businesses, and tens of thousands of medium-sized enterprises. Large firms would then evolve, as would a new entrepreneurial class. A new bourgeois class would be created, with all of its stratification, which was completely liquidated in socialist countries. You cannot appoint this class; it has to evolve" (Kornai interviewed on 4 May 1990 in Bush 1991:124).*

Neo-liberal orthodoxy, its radical utopianism and end-point driven neo-classical assumptions of balanced markets and economic rational actors are of course not uncontested. A rival strand of thought, the institutional economy approach which is closely linked to evolutionist approaches to the economy, has increasingly questioned the notion of 'capitalism by design' and the interpretation of transition as a problem of structural adjustment and 'getting the policies right'. The two approaches, institutionalist and evolutionist, share the assumption that human action and interaction need to be understood as the behavioural result of shared habits, thoughts, and socio-cultural 'routines' and so they reject 'maximisation' as a process description of what humans actually do (Nelson 2002:19).

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<sup>11</sup> At the end of 1992 about 14 per cent of the 8453 companies owned by the Polish central state (on 31<sup>st</sup> December 1990) had been approved for 'changed ownership' (this includes so called 'commercialisation', liquidation/bankruptcy and direct and indirect privatisation). By the end of 1999, there were still 2599 fully state-owned enterprises contributing around 25-30 per cent to the GDP. These were mainly firms of the heavy and mining industries, construction, transport, wholesale, energy, and finance (Ministry of the Treasury - Republic of Poland 2000:23-40; own calculations).

They argue, instead, that the nearly complete absence of markets and market-supporting institutions in the countries of CEE limits the key advantage of efficiency gains that might have been expected by the (abstractly attractive) attempt to open up markets, creating a market economy by *fiat*. The transition is viewed as a problem requiring more emphasis on micro-economic, gradual reforms over the macro-economic *tabula rasa* radicalism of neo-liberal blueprints, because “In almost all societies, the socio-economic framework has been built up in a gradual process of accumulating small changes” (Murrell 1992:4). Rather than promoting a plan of destruction (which in turn is expected to generate the creation of a new economy), they argue for an open-ended establishment of the new within the framework of the old. In contrast to the neo-liberal approach, this strand of economic growth theory argues that socialism is not completely inefficient and that some of their institutions, in particular those relating to the redistribution of resources, worked quite well (Poznanski 2001:211). From this perspective, the state-monopolised economy lacks the ability to innovate. For this, a stable institutional environment – which has to evolve gradually - is needed, one that encourages risk taking under competition and is supported by the citizens. As one of the commentators suggests,

*“Capitalism cannot be introduced by design in a region [Central and Eastern Europe] where the lessons of forty years of experimentation by a rational hand have made the citizenry cautious about big experiments. A new social order cannot be created by dictation – at least not where citizens themselves want a voice in determining the new institutions” (Stark 1992:19).*

In contrast to the grand design of (big-bang) capitalist systemic change, the proponents of gradualism, such as Stark, point to the complex nature of capitalism and thus not only accept, but advocate the time coupled and parallel existence of new and old elements in economic arrangements. This, they suggest, will make it possible to maintain support among the electorate and to buffer the shocks of quick macro-economic ‘recovery’. This incremental and rather conservative approach calls for a focus on immediate problems, the

use of existing institutions (for the time being) drawing on their accumulated practical judgement, and is characterised by a rather sceptical attitude towards radical new approaches and the idea of the reversibility of implemented reforms (see Murrell 1992:13).

Institutional and evolutionary theorists have identified a range of legacies inherited from the socialist order. These legacies have been explained through notions of path dependency, cultural persistence, and the circulation of elites (Stark/Bruszt 1998). This approach directs its attention towards the ways in which the future development of an economic system is affected by the past within which it is located. In contrast to utopian neo-liberalism, while the 'zero-hour' of 1989 is certainly conceived as a break, the socialist legacy is not simply dismissed as a sweeping burden. Instead, evolutionists suggest there is a continuing process of economic development whose legacies also have the potential to shape the future in a positive way by supporting transition processes. So in contrast to an emphasis on economic genesis, institutional and evolutionary approaches focus on the reconfiguration of elements from the present and the past. In these analyses, the recombination of 'social institutions', such as property regimes, laws, economic behaviour etc., is seen to offer a means of minimising transaction costs. Instead of a mono-structured economic environment, artificially created by a 'clean the slate' privatisation strategy (Murrell 1992:14), they argue for a 'compartmentalised' two-track approach, within which inter-linked state owned firms still exist alongside private small scale companies.<sup>12</sup> This buffering, they suggest, has the potential to create a high diversity of economic forms and an economic environment that has the adaptability to react toward unexpected effects and allow "not only for competition among *firms* but also competition of *forms*" (Grabher/Stark 1997:536; original emphasis).

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<sup>12</sup> The neo-Darwinist term compartmentalisation describes a biological process through which inefficient sub-populations (e.g. state-owned companies) become isolated ('buffered') from more efficient ones (e.g. 'the private sector') in order to allow the former population more time for adaptation thus lowering the pressure of selection for the time being (see Grabher/Stark 1997:536).

Stressing the role of social relations in economic life implies that markets are socially constructed and that economic behaviour is 'embedded' in networks of interpersonal relations, within which 'relational assets' such as habits and norms, co-operation or trust "are not tradable, nor are they easily substitutable, since they draw on the social properties of networks in which economic agents are implicated" (Amin 1999:369). Research in network analysis assumes a relationship between the density and intensity of the coupling of the network and their openness to the outside environment (Grabher/Stark 1997:537). The indirect connection of rather isolated groups of actors, labelled as 'weak ties' (Granovetter 1973), becomes decisive for the adaptability of networks in particular and for local or regional development in general, because of the greater dynamism of innovating networks and their ability to learn quickly. Furthermore, an important starting point for the critique of utopian social engineering and the adoption of blueprints from outside is the acknowledgement that economic actors are not only endowed with technical, explicit (codified) knowledge, but with what Michael Polanyi called 'personal knowledge', that is, a tacit knowledge which is gained through experiences and activities, embedded in a peculiar set of – often place-bounded - socio-economic arrangements.<sup>13</sup>

Most neo-classical approaches analyse economic developments by looking at macro-economic institutions, supported by a particular micro-economic theory of the firm, and focus on policy development at the scale of national and even macro-regional economies. In contrast to this account, institutional and evolutionary studies bring places into focus as sites of economic action - and provide evidence for a plurality of transformations embedded in particular space/time conditions. This approach starts from the recognition that processes of globalisation do not equalise the properties of localities but make their socio-cultural and socio-economic uniqueness still more significant for economic

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<sup>13</sup> Murrell argues that foreign advisors who played a crucial role in the first transition period did not succeed, because they lacked this practical knowledge of a set of old arrangements which still persisted, before the blueprint was implemented (Murrell 1992:7).

development. The specificity of local culture, knowledge and networks give shape to new and particular forms of economic specialisation, which form the socio-economic assets of places.

If one critique of the neo-liberal approach relates to its failure to predict the economic events that actually followed regime change in Central and Eastern Europe a more fundamental critique arises from the ideological, ahistorical and spatially unbounded view of the world that is central to neo-liberal approaches and strategies. This can be illustrated in the distinction that may be made between economic transformation and transition. Whereas ‘transition’ (the term favoured by neo-liberal analysts) suggests an end-driven and triumphant outcome of systemic change, ‘transformation’ points instead to the procedural and open-ended, or at least lengthy, nature of the project, as well as characterising this institutional change as problematic, potentially abortive, and sometimes impassable. Although the latter approach is the one generally favoured in this thesis, the term ‘transition culture’ will regularly be used to refer to the institutional and organisational arrangements which have been generated as part of the process of implementing neo-liberal thinking in Central and Eastern Europe. As Kennedy contends,

*“This [transition] culture is open to anyone. Transition culture is multinational. It thrives on the assimilation of those from outside the ‘Western’ experience. It is improved to the extent that more people from across the world embrace its presumptions and act in such a way as to reinforce the power of its presumptions. It even looks better when those who articulate transition culture speak with accents that come from Tashkent or Tirana rather than London or New York” (Kennedy 2002:95).*

## 1.2 Doing Research in Old Industrial Areas in Central and Eastern Europe

The ongoing but selective economic processes of global and macro-regional economic integration have been identified as a main issue in geographical research.<sup>14</sup> In particular the nexus between the global and the local - seen “as a dialectical relationship, composed of multiple and asymmetric *interdependencies*” (Amin/Thrift 1997:147; original emphasis) – has stressed the necessity of utilising relational analysis in economic geography, in contrast to the “territorial idea of sequestered spatial logics – local, national, continental and global – pitted against each other” (Amin 1999 [1997]:44-45). The question emerges in what ways and to what extent increasing economic integration may lead to a socio-economic convergence of places or the development of ‘indigenous capacities’, spatial peculiarities and legacies to establish themselves in a global and macro-regional capitalist network of production.<sup>15</sup>

As a geographer, the author assumes that places are unique and that global changes in economic development have differential impacts on localities. Nevertheless, it is not deniable that places are faced with shared processes of economic change that derive from economic and ‘revolutionary’ technological meta forces.<sup>16</sup> The question is how strong the

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<sup>14</sup> In this context, ‘macro-regional’ may be characterised as an economic integration process between countries which belong to a supra-national body with the aim of implementing legislative harmonisation, free trade, common (sectoral) policy, and a common currency such as the European Union. The author is fully aware of the significance of discursive constructions and the powerful but ‘chaotic’ term of ‘globalisation’, used as an inevitable process and a (neo-liberal) vision of a barrier-less and open world.

<sup>15</sup> Hudson identifies an increasing convergence towards the US/UK neo-liberal economic policy model in the EU which encourages the privatisation of former state assets and opens the way for foreign direct investments – a result of the increasing economic integration of the EU and the ‘shareholder value economy’ (Hudson 2002:20). Fitoussi argues that the rise of neo-liberal thinking is directly linked to the downfall of state socialism, which led to the disappearance of competition between capitalist and socialist ideologies (Fitoussi 1997). In terms of the increasing internationalisation of production, Storper et al. stress that classical Ricardian trade theory as well as new economic geography predict – for different reasons – more specialised economies of places (Storper/Chen/DePaolis 2002:73-76). Research on the geographical concentration or spread of industries on EU and OECD levels points to the existence of a “network of metropolitan agglomerations as the key spatial architecture of the global economy, and the questions of evenness and unevenness and specialization are, in effect, redirected to the subnational level” (ibid:105).

<sup>16</sup> The notion of revolutionary technical development, such as the Industrial Revolutions between the 18<sup>th</sup> and 19<sup>th</sup> century or the quick rise of information technologies at the end of the 20<sup>th</sup> century and a gradual perspective on the history of human life is not necessarily contradictory. “The history of life [...] is a series of stable states, punctuated at rare intervals by major events that occur with great rapidity and help to establish the next stable era” (Gould 1980, quoted in Castells 1996:29).

effects of these forces are in shaping local development and change and what exactly the impacts of and relationships between these processes might be. A starting point might be to recognise that local economic change is best understood through the incorporation of different analytical levels; the peculiarity of the locality with its inherited set of socio-spatial formations *and* the meta narrative of global/macro-regional integration affecting a particular place. Both characterisations and processes are necessary to understand the local transformations and impacts of a wider economic change, because impacts are different and depend on the specific contexts of place. An analysis of the relationship between these forces, their balance and meaning in local socio-economic processes is an important way in which to understand why places develop differently. Moreover, the “multi-sited articulation of economic and non-economic practices” (Smith 2004:22) has the potential to deliver a “non-centred ontology of European regional economies” (ibid:21) and thus provide evidence that helps to explain the diverse developments on this continent.

It is not enough simply to conclude that places are unique and develop differently, but is also necessary to specify the nature of that uniqueness and to gain an understanding of the reasons for the divergent processes of uneven development that generate it. Through this analytical process a number of implications and opportunities emerge. Not only will the spatial analysis of peculiarity help to explain how a particular place ‘works’, but it will also make it possible to identify some of the reasons for ‘unsuccessful’ development, or more positively, the areas in which action might be taken to build a balanced social and economic fabric. But an acceptance of the importance of peculiarity also means that it is necessary to recognise that only a locally adapted set of prerequisites is capable of delivering success. Moreover, the analysis of a specific set of local political-economic regimes also creates an understanding of how a place fits into global/macro-regional networks of production by highlighting local potentials and resources on the one side and shortcomings on the other. In this way the nature of a place relates both to itself and to the

world outside, as it is affected by it. In stressing the uniqueness of place, the author acknowledges that broader generalisations of social, economic and cultural change are possible and necessary for understanding the varieties of human endeavour, embedded in “space-time as a configuration of social relations within which the specifically spatial may be conceived of as an inherently dynamic simultaneity” (Massey 1994:3). The ‘specifically spatial’ in this thesis is analysed as a peculiar set of continuously recombined formal and informal institutions, which shape the transformation processes in post-socialist societies, but might only be observed there in a more intense and dynamic articulation than in other capitalist contexts.

After the end of the cold war and the breakdown of nearly all communist regimes in Central and East Europe, many observers have sought to assess the transformation process of the last fifteen years. Many scientific studies have been produced within which the whole bloc of CEE states is scrutinised according to the economic, social, and political changes that have taken place since 1989. These macro-spatial narratives of transformation neglect the fact that the quantity and quality of change between the former socialist states is different because of the different starting points that were already defined in the socialist period. Moreover, a comparison of whole states (or even macro-regions as is done in World Bank publications) carries with it the danger that considerable sub-national peculiarities and processes that diverge from the national standard will be neglected. Thus, it is also necessary to investigate transformation at local and regional levels, not only to give evidence that ‘place matters’ but to show that different places behave in different ways and therefore need different approaches for managing change. But the specificity of local development like that in the old industrial areas, is understood particularly poorly and one might ask how evolutionary and institutional approaches can contribute to a better understanding. What aspects of the economic transformation are specifically path-dependant as ‘post-socialist’? Which result rather from the general decline of Fordist mass



production ('structural change'), which has been described as 'time-lagged' in the case of CEE?<sup>17</sup>

**Map 1: Poland**



Source: Stenning 2000:100

### 1.2.1 Reflection on the Research Process

Institutional and evolutionary approaches are powerful in challenging the neo-liberal project and give important ontological evidence to explain and to understand the implications of economic transformation in CEE. They analyse what is typically absent in neo-classical mainstream studies: socialist institutional legacies and their meaning in 'post-socialist' contexts, recombined economic-political networks embedded in local and regional settings or path-dependent technological change. When neo-liberal analysis

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<sup>17</sup> The post-Fordist meta narrative takes into account that the former socialist countries run through a process of de-industrialisation – similar to the western world since the 1970s - after the collapse of the Warsaw Treaty countries. In this view the transformation can be traced back to the wider shifts in the world economy, the intensification of international competition or the acceleration of tertiarisation. Agglomerations fulfil the economy's need for an increasing flexibility of production in uncertain times through the proximity of possible transaction partners. The results of this structural change are said to lead to the flexible specialisation of firms with consequences for space and place and the emergence of post-Fordist urban economies. Although the post-Fordist hypothesis is more concerned with 'hard' transactions, such as the input-output relations of firms and formal institutions which are necessary within this process, this approach has a strong link to space as an important element of economic change.

focuses on macro-structures, evolutionary research in particular emphasises the importance of local or regional economic micro- and meso-structures.

Although this focus is legitimate and necessary as a powerful counter theoretical approach to challenge the 'one size fits all' neo-liberal project, the neglect of the national scale can be problematic, because it sets the political and economic framework of localised transformation. Moreover, the micro/meso perspective at least carries with it the danger of overlooking international economic currents, which increasingly influence localities, as it is suggested in the term of 'glocalisation' (Swyngedouw 1992, 1997). On the other hand, it seems to be nearly impossible to encompass all geographical scales in a single research project capable of understanding the full range of spatial transitions and transformations. However, at the very least, research in CEE at a local or regional level should reflect macro-scale aspects in trying to analyse the connectivity, competitive potentials and economic leeway of localities in a 'shrinking' world. This point is particularly relevant to the countries of CEE, because of their completely different mode of production in the past, inherited institutions and their increasing openness and integration into the EU and global production chains.

Although institutional and evolutionary analysis has been applied to the study of micro- or meso-structures, such as political and economic networks, and has the potential of understanding the relevance of place and space on this scale, some authors suggest that this analytical scale is still not sufficient to understand local transformations and 'unexpected behaviour' of actors and citizens. Instead of studying economic local processes, authors such as Burawoy and Verdery argue for the analysis of the everyday life of people who are affected by economic change.

*"These descriptions come close to the micro foundations of the new economic order, but even they fail to grasp theoretically the specificity of the transition as a process. A focus on the day-to-day realities of postsocialism reveals a much more ambiguous account of the transformation announced with such fanfare by theories of modernisation and of markets and democratic transition" (Burawoy/Verdery 1999:6).*

From this perspective, it is only possible to understand the procedural depth 'on the ground' by drawing on the perception of the 'locals', who have to cope with economic decline, but who also have the ability to set up survival strategies and resistance to transitional processes. The value of developing an ethnographic 'bottom-up' account should not be underestimated but is a challenge for geographical research in CEE. Moreover, an emphasis of people's ability to resist change includes a rejection of the 'grand narratives' of capitalist development, either from a neo-liberal perspective or an institutional one, which both believe in economic, technological or institutional modernisation, but have different recipes and starting points. The account of 'geographies of resistance' is important, if applied on specific places, like old industrial areas, both in east and western Europe.

However, in contrast to Burawoy and Verdery, it is not clear that either these general abilities to resist neo-liberal transition or the search for strategies of survival are specifically post-socialist. While it might be conceded that there are specific forms of resistance in certain communities or that particular survival strategies occur at the household level in the countries of CEE, old industrial areas in all Europe have been or still are populated by social groups, such as (ex) miners or steelworkers, and they, too, have a long history of organising labour interests as well as a distinct understanding of solidarity and protest which gives them a capacity to resist or to initiate change. This sort of resistance might provide evidence for the emergence of social movements, the struggle for economic justice and democratic participation in the process of systemic change. But the portrayal of the striking and street-fighting miner as a resistance fighter against

'globalisation' and capitalist transition falls short as a means of comprehending the complex shifts of post-socialist power and redistribution and in particular the loss of political influence and economic privileges for workers of the former socialist model industries. While the analysis of labour relations is crucial for understanding ongoing transformations in the countries of CEE, there is a risk that a one-sided romantic juxtaposition of labour and capital may distract attention from the enormous formal and informal institutional changes, which are also being faced by the new 'profit-maximising' entrepreneur and political-economic networks. From this perspective, the 'emergent' capitalist is seen as an economic actor who tries to cope with a quickly changing business environment with the application of strategies, skills and routines deriving from the old socialist regime and recombined with well-known features of a capitalist system.

A similar question relates to the specific impact of post-socialist economic transformation and its connection to what has been labelled as 'globalisation'. While both processes are closely interconnected, mutually reinforcing each other, it is important to avoid seeing 'globalisation' as an inevitable 'natural' phenomenon. In this thesis, therefore, the increasing internationalisation of capital will be analysed when political and economic actors address this issue and thus reveal specific interests and discourses in the process of neo-liberal 'transition'.<sup>18</sup> From this perspective, "the state continues to participate in capital's internationalization in order to reproduce itself" (Yeung 1998:293), rather than itself being faced with inexorable decline in the face of inevitable globalisation.

In order to explore the range of aspects, problems, and necessities in geographical research in east European old industrial areas, which have been discussed above, an attempt will be

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<sup>18</sup> In this thesis, the use of the term globalisation will be limited to its meaning as an increasing interweaving of multinational capital and the resulting power of definition of how 'the economy' becomes fit for stiff competition in international markets. In other words, 'globalisation', rather than capturing the learning processes of actors and regions in becoming 'capitalist' and competitive on international markets, is used to point to neo-liberal actors and their account of radical 'transition' in CEE.

made to analyse locally embedded economic and political actors and networks with all their historical and cultural idiosyncrasies. In what follows 'economic transformation' is understood both as an ongoing process of shifting social relations and the emergence of new actors struggling for influence and power. In using institutionalist and evolutionary approaches, it is acknowledged that the process of transformation has to be seen in a historical and cultural context, embedded in social relations and framed by specific spatial identities. This spatial peculiarity creates a place-bounded form of transformation, providing evidence of a broad range of diversity and variety in this process.

However, the difficulty of exploring the full range of informal as well as formal institutions through fieldwork needs to be recognised. The status of a 'western' researcher in former socialist countries is difficult, as in any research conducted in unfamiliar cultural contexts, in particular if one's focus lies on informal institutions, such as unwritten rules, routines and habits. But the severity of deciphering cultural codes may also be partly balanced with some of the advantages of being an outsider. Access to some of the high-profile interviews conducted in the research process, such as those with *Huta Katowice*, *Kompania Węglowa*, *Opel* and *Fiat Polska*, were only possible because of the author's outsider status, as Polish-based researchers are not yet able to penetrate these organisations.<sup>19</sup> While the effectiveness of reading in between the lines might occasionally be misleading, the outsider perspective at least creates the potential for identifying crucial aspects which have been overlooked by 'indigenous' researchers, because they take certain socio-cultural norms and formations for granted. Moreover, the stranger is often perceived as rather unchallenging and naïve by the insiders being interviewed. This makes it possible to ask uncomfortable questions and may result in answers which are more frank and expository, because the foreign interviewer is handled with more care and it is understood that more explanation may be required.

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<sup>19</sup> This has been claimed by Richard Woodward, Center for Social and Economic Research, Warsaw (CASE), in an informal talk in summer 2003.

As a researcher with German nationality, undertaking research in former German territories is not without its complications and there is a danger of exposing oneself to the risk of being seen negatively, particularly expressed through reflections on 'Polishness', 'Silesianness' and 'Germanness', even though areas such as Upper Silesia have been Polish for more than 80 or 60 years. The fact that the author conducted research with a British university affiliation (providing the label of 'Britishness') has enormously helped not only in terms of formulating questions, which would have been different if asked in a German or Polish research context, but in terms of subjective and objective distance from the research field, helping to shape how Polish interviewees perceived the author and vice versa. The research process has hugely shaped and emotionally contributed to shaping the author's European identity, moving beyond the 'German'.

The following section of the introduction identifies first some departure points for conceptualising economic transformation in post-socialist contexts and seeks to integrate these processes into broader debates of geographical inquiry. This effort leads to a preliminary set of research questions, a substantiation of the case study, an overview about the theoretical design, and an outline of the main chapters of this thesis.

### 1.2.2 A Case Study in Górny Śląsk: Theoretical Design

Storper's concept of the 'holy trinity' can be seen as one of the most powerful articulations of the 'heterodox paradigm' in economic geography (Storper 1997) since its emergence, with Massey's seminal work - "Spatial Divisions of Labour" (1984) - which breaks economic development in regions, nations, and on a global level into a series of empirical and theoretical dimensions with the aim of formulating a problem-oriented multi-level explanation for growth and decline.

Storper's work offers an analytical framework for conceptualising spatial-economic change and the heterogeneous structures of labour and capital. He sets out to construct an integrated theory of economic space consisting of the interrelations between organisational, technological, and geographical spaces. Storper argues that there is an important association between social learning and spatial agglomeration, which has two main roots. The first of these is localised economic input-output relations, articulated as 'traded interdependencies', and the second, 'untraded interdependencies' between actors, which mediate processes of economic and organisational learning and encompass, for example, rules of action, customs and norms, understandings and values (see *ibid*:19).

In contrast to previous attempts to conceptualise economies of space he calls for the analytical integration of untraded interdependencies, their conventional and relational qualities and the ways in which these conventions and relations organise traded transactions and learning. A main driving force of this interpretation of the nature of capitalism lies in its new meta-capacities such as the technological revolution in production, the rise of information and communication technologies, the extension and social deepening of market relations and the application of sophisticated organisational management qualities in firms (see Storper 1997:28-29). The analytical focus lies

*"(...) on how individual and collective reflexivity operate in the contemporary economy, through cognitive, dialogic and interpretative processes, with the substantive goal of understanding how relations of coordination between reflexive agents and organisations are established (...). The learning economy is therefore an ensemble of competitive possibilities, reflexive in nature, engendered by capitalism's new metacapacities, as well as the risks or constraints manufactured by the reflexive learning of others" (Storper 1997:31; original emphasis).*

Storper identifies *worlds of production and innovation* which incorporate the relationships of one of the principal motors of changing territorial patterns (technology) with

organisations (firms). This sub-world conceptualises the conditions of the rise and fall of new products with a definition of physical and intellectual possibilities on the one side (technology) and the institutional possibilities for an economic implementation in a feasible manner (organisations). The *regional worlds of innovation* focus on the relationship and conditions of innovation (technology) and its spatio-economic diffusion (territory). This geography of innovation is shaped by collective private and public coordination which highly depends on the specific locality and its capacity to organise the localisation of knowledge and learning. The *regional worlds of production* acknowledge that organisations shape space through their locational behaviour, but in turn, that organisations are also shaped by territorial institutions. What emerges is a localised relational environment of untraded interdependencies based around sets of economic and social conventions.

The thesis aims to explore the extent to which Storper's interpretation of the 'reflexive turn' in the interrelations of organisations, technologies and territories is applicable to old industrial districts in post-socialist settings. The assumption, however, is that the specificity of the post-socialist transformation process produces considerably different balances and meanings within this 'holy trinity' than in mature capitalist contexts. Although Storper's assumptions and empirical work are based mainly on western experiences, in particular new industrial districts, the aim is to show that his open concept of economic spaces is helpful in exploring change in the new capitalist territories. Yet the application of the 'western-tested' concept means that his approach must be adjusted to the account of the specificity of post-socialist transformations and transitions.<sup>20</sup> In particular,

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<sup>20</sup> Roberts (2004) is right to highlight the conceptual stretching of the term 'socialism', describing at the same time eastern totalitarian (or at least authoritarian) regimes and western social democracies, spanning "the spectrum from Stalin to François Mitterrand" (Roberts 2004:357), which usage "has grown to mean everything and therefore nothing" (ibid:361). Nevertheless, in this thesis socialism with the prefix 'post-' will be used in a rather pragmatic way, acknowledging that communism as a utopian dream and ideology was at no point reached in history. Instead, the term rather points to 'real existing socialism' in (former) Soviet-style regimes with its incomplete and sometimes contradictory institutions, such as the single mass party led by one person, the high degree of centralisation and hierarchy, the state-ownership of the means of production,



the relevance of power relations in addition to social, historical and cultural processes in the realm of 'the economy', all have to be refocused when conceptualising institutional change in Central and Eastern Europe.

Upper Silesia (Górny Śląsk) is a region where the transformation process represents a major challenge, not only for Poland, but for the whole of Europe and its ongoing integration process since the end of the Cold War. The rich and complex history of (Upper) Silesia mirrors the imperialistic era of Europe in a spatial microcosm, as a territorial bone of contention over the centuries, becoming subject of 'internal colonisation' and exploitation (Kühnemann 1993; Cybula 2004).<sup>21</sup> The history of this peripheral 'border region' shows how it has had to integrate and accommodate itself more than once into new political and economic realities (see Wódz 1993; Cordell 1995; Riley/Tkocz 1999). The intricate historical context and the region's economic identity as one of the remaining but fading, old industrial power houses of Europe has generated pessimistic estimations about its future and its status as a peripheral and 'backward' area. As Błasiak et al. suggest, the

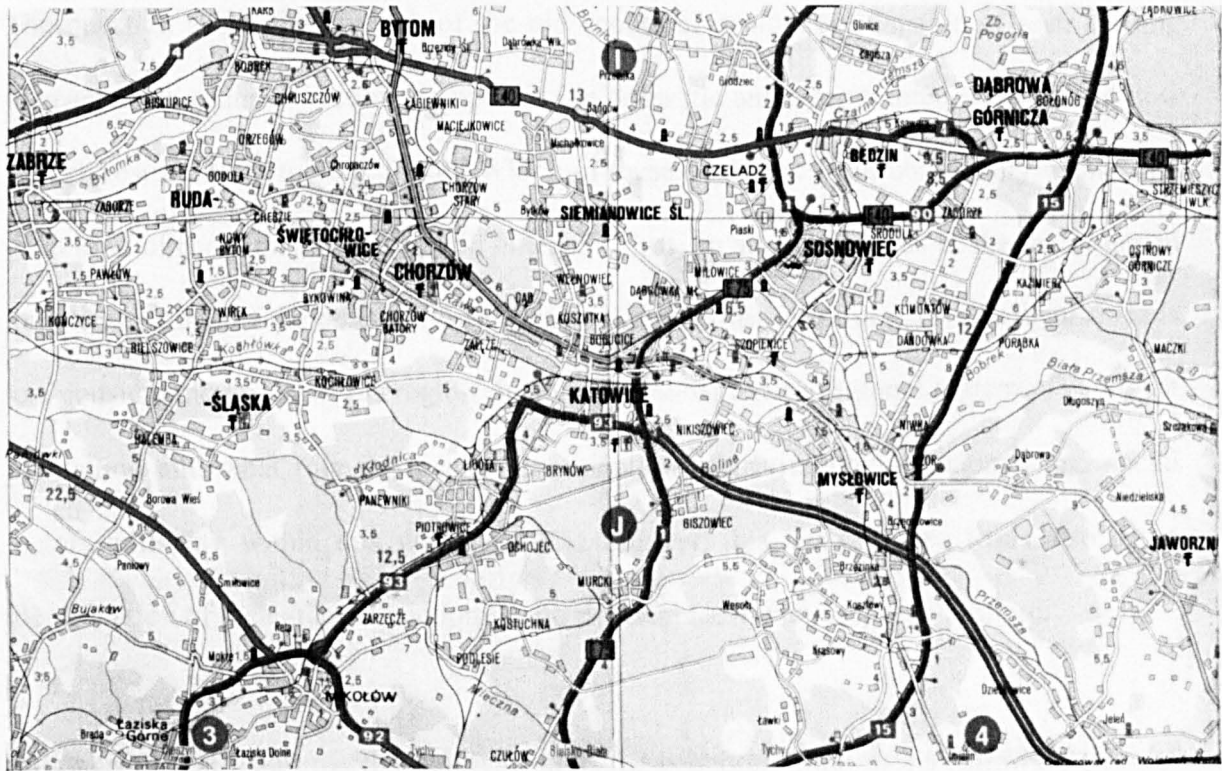
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or the commitment to revolution and massive transformation of existing society. For a discussion of pluralism in Poland before and after the fall of state socialism and the question of whether the People's Republic should best be understood as authoritarian or totalitarian, see Górski 2002.

<sup>21</sup> In this thesis it is acknowledged that 'regions' "are 'made' and 'constructed' as much in imagination as in material form and that though entity-like, regions crystallize out as a distinctive form from some mix of material, social and mental processes" (Harvey 2001:225). For a historical account of Silesia as a microcosm of central Europe, see Norman Davies' seminal case study of the city of Wrocław/Breslau (Davies 2003). The political and administrative borders of (Upper) Silesia have changed frequently over time, in particular over the last 250 years. After the downfall of the three European empires - Germany, Austro-Hungary and Russia - at the end of the First World War and Poland's achievement of independence - for the first time since the 18<sup>th</sup> century - parts of the ceded territories of the dissolving empires (which spatially met each other at the 'three emperors' triangle', at today's Mysłowice) - became the Polish Górny Śląsk (Cybula 2004:226-245; see also maps in Kühnemann 1993:263). Thus, the usage of 'Upper Silesia' (in German 'Oberschlesien') today often indicates a blurred historical region rather than a clearly defined territory and is frequently linked to certain separatist or reactionary political circles, both in Poland and Germany. In this thesis, Górny Śląsk/Upper Silesia is roughly defined as the highly industrialised agglomeration belt between the city of Gliwice in the west and Dąbrowa Górnicza in the east (approx. 22 miles / 35km air line), although this (functional) definition excludes historically associated rural parts (e.g. in today's Voivodship of Opole) and includes historically non-associated parts (e.g. the Dąbrowa Basin), it is consistent with the area defined for planning purposes under the socialist regime as GOP (Górnośląski Okręg Przemysłowy - Upper Silesian Industrial Area). Today, this agglomeration is administratively situated in the Voivodship (province) of Silesia (Województwa Śląskiego).

“(…) Silesian syndrome – that is, serious degradation of the regional natural environment system, technical, socio-cultural and also political systems is frequently said to be the consequence of internal colonisation processes. (...) In these unfavourable circumstances, the long grounded peripheral position of a country and a region and the mimetic development (...) serves to worsen the unfavourable economic, political, social and cultural effects and tendencies” (Błasiak/Nawrocki/Szczepański 1994:18+20).

**Map 2: The Core Industrial Area of Upper Silesia (w/o Gliwice)**



Source: Mapa Samochodowa Polski. Warszawa: PPWK, 1992. Exact Scale Unknown, ca. 46km WE and 25km NS

Without any doubt, the extension of the European Union, the early opening of domestic and world markets in the progression of shock-therapy not only influenced this region, but changed it dramatically. As a result of the second industrial revolution in the 19th century and a further intensification of heavy industrial production during the socialist period, Upper Silesia is one of the most industrialised and agglomerated areas in Europe today. The change from a state-planned economy to a capitalist system of production has had serious impacts on the overall socio-economic fabric of the region. The regional and local economies are in a process of dramatic restructuring, reorganisation and reconfiguration

which highlights the importance of investigating the nature of the transformation in this ‘difficult’ but also extraordinary and interesting place.

The difficult restructuring process in Upper Silesia leads to an ongoing decay of sectoral spatial-economic activities, particularly of heavy industry and its associated businesses. The question arises then, which of the old economic sectors are capable of restructuring themselves in order to become competitive in domestic and international markets and how is such restructuring to be realised? Which of these businesses will completely vanish and what kind of economic activities will emerge? Thus, an attendant focus of the thesis lies in the identification of the potential for a (post-) heavy industrial future. This focus also leads to a consideration of how this region fits into the global/macro-regional system of capitalist production and what role its specific combination of institutional, economic and social factors will play within this wider game. Moreover, this analysis also leads also to an identification of the extent of economic and political leeway in shaping its future.

In analysing the realm of ‘the political’ and ‘the economic’, the thesis follows a two-tier strategy, although it is, of course, questionable whether such a clear-cut distinction is always possible or desirable, in particular in analysing the countries of CEE. As already indicated, the main analytical framework employed in the thesis draws on Storper’s concept of the holy trinity; which guides the work, but is modified as felt necessary. Informed by Storper’s work the thesis has two main aims.

First, it aims to analyse the interrelated ‘worlds’ organised around the competition over products and between organisations (mainly firms), technology and territory. This combines the *worlds of production and innovation* (between organisations and technology), the *regional worlds of innovation* (between technology and territories) and the *regional worlds of production* (between organisations and territories). In contrast to

traditional analyses of specific industrial sectors and their input/output relations, this thesis is working towards a rather broad if not completely comprehensive understanding of the different layers of economic development. The transformation process is mainly perceived as an informal institutional change, which is guiding socio-economic relations in a given territory. In this thesis, the city region of Upper Silesia (administratively integrated in the Voivodship of Silesia) as an economic space has been conceptualised as “open, discontinuous, relational and internally diverse. (...) a construction in space-time: a product of a particular combination and articulation of social relationships stretched over space” (Allen/Massey/Cochrane 1998:143). This means that in contrast to more conventional analyses, a definition of the region is employed, which allows the narrative of multiple, open-ended and sometimes apparently contradictory processes - perceived as the provisional outcome of human association and conflict over space and time.

The economically transformational nature of this region has created a set of divergent actors. These emerged from the socialist legacy as well as the historical industrial base of the 19<sup>th</sup> and 20<sup>th</sup> century. The former socialist and state-owned flagships of heavy industrial development are still determining the overall economic character of the region, although they are in a process of ongoing restructuring, closing-down, or privatisation. Besides this ‘old industrial’, smoke-stacked and mono-structural heritage of coal and steel production, the region has been faced with intense foreign direct investment (FDI) by global players, in particular from the automotive sector. Additionally, the establishment of private small and middle-sized enterprises (SMEs) has been flourishing since the early 1990s, a development which has been constantly supported by local, regional and supra-national authorities, in particular with reference to the sector of ‘knowledge industries’.

The different historical layers of industrial production have evolved particular sets of spatial divisions of labour and certain forms of spatial inequality, each of which produce

spatial effects and overlay old ‘rounds’ of investment. Consequently, they prepare the ground for new ‘rounds’ of inward investment. Altogether, this has methodical implications, because “In any empirical work (...) it is necessary both to analyse this complexity and to isolate and identify those particular divisions which are dominant in reshaping the spatial structure” (Massey 1994 [1979]:52). These particular divisions, the different rounds and historical layers of investment are represented in this research by a:

- Focus on ‘old industries’ (e.g. coal and steel), still state assets or prior to privatisation, sometimes unprofitable mass production.
- Focus on ‘new economies’ (e.g. IT), highly technological and knowledge-based oriented and their systems of support.
- Focus on industries at the interface between ‘new’ and ‘old’ modes of production, innovation-oriented and knowledge-based respectively but still producing material commodities (e.g. automotive) for export markets, thus world market oriented.

Examples of these diverse players, their intra- and inter-relational ‘ways of doing business’ are covered in this thesis through the analysis of their economic routines, norms of conduct and cultural-historic, recombinant approaches towards becoming part of capitalist networks and their material and immaterial flows of products, ideas, skills and information (chapter 5). The cities of Upper Silesia and the region as a whole are in this perspective conceived as “moments in spaces of flows, as relational places entangled in webs of connections” (Smith 2004:9).

Second, the thesis also engages with the change of formal institutions and the political process guiding economic transitions and transformations. In the case of Upper Silesia and the Voivodship of Silesia, this process encompasses the emergence of new institutions,

such as an elected regional parliament and its administration, elected mayors, and the setting-up of local and regional agencies and organisations supporting, advising, and lobbying industrial restructuring and economic strategies of the region. These actors and their underlying institutional network of action are conceived as important, because they set a spatially bounded political-economic framework which co-defines the region's identity, but also its prospects of overcoming its alleged peripheral and economically 'backward' character. Moreover, the political process of devolution of authorities leading to de-centralisation can be seen as a major driving force of democratisation in the aftermath of an over-centralised bureaucracy during state socialism, which is also a prerequisite for Poland's accession to the 'Europe of Regions'. Thus, the analysis of regionally based institutions is undertaken to provide evidence of the diversity of transformations, neo-liberal transitions and the political struggle which takes place for the power to define and so how to shape the economic future. The representation of this future and spatial identity to a wider audience is not limited to the region itself, but includes possible investors from outside as well as, of course, foreign researchers. While dealing with constructed spatial and interest-led identities, the observer is at least required to be cautious in interpreting space/time, as Harvey might suggest.

*"Being, suffused with immemorial spatial memory, transcends Becoming (...) Is this the foundation for collective memory, for all those manifestations of place-bound nostalgias that infect our images of the country and the city, of region, milieu, and locality (...) And if it is true that time is always memorialized not as flow, but as memories of experienced places and spaces, then history must indeed give way to poetry, time to space (...)" (Harvey 1989:218).*

In this research, the topic of spatial identities and the linked political process is mirrored by the struggle for economic concepts, visions, and projects which have been developed since the establishment of the elected regional administration (the so called Marshal's Office) in the late 1990s and their impact on firms, technological innovations and the overall

development of the region. Besides this, inherited institutions such as the Voivod (the State Governor) and other organisations will be analysed regarding their interplay and compatibility with new structures. Here too, the relational and multi-scale nature of 'doing politics' will be analysed, not only on the regional level, but also at a local level with case studies in some major cities of Upper Silesia (chapter 6). In doing this, the thesis aims to explore the specific nature of the urban political-economic, post-socialist regime. In summary, the thesis analyses the effects and roles of old and new urban/regional formal institutions within the process of restructuring and tries to identify the specific (power) relations (in)between public and private actors and their networks, as well as their underlying set of informal institutions, such as economic and political routines and norms of conduct.

For this reason, the empirical focus of the research is the urban and regional elites and decision makers (Cochrane 1998). These sets of economic and political actors shape the ongoing process of economic transformation in Upper Silesia. To support and inform the semi-structured in-depth interviews with CEOs, managers, politicians, civil servants, lobbyists, and other regional or local elites, strategy papers and other official material have been analysed (Schoenberger 1991, 1992; McDowell 1992).<sup>22</sup>

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<sup>22</sup> In total, about 60 interviews have been conducted. Any material used in the thesis is marked with 'INT:' followed by the name of the interviewee and the date. 51 interviews have been recorded with a conventional dictaphone, more than 60 hours of data. In ca. nine cases either the interviewees rejected the use of a tape recorder or in a few cases the recording failed for technical reasons. Sometimes interviewees rejected the use of a tape recorder in the course of an interview, or I offered to turn the dictaphone off, in particular when sensitive information was given. Comprehensive notes were taken of all interviews and have additionally informed the transcriptions and the interpretation of the data. A good part of the data has been transcribed, in particular 'key interviews', which have been used for direct quotation, and non-transcribed data has also been used in order to strengthen arguments. Most interviews were conducted between May and July 2003, either in English, Polish or German (decreasing frequency), sometimes with professional interpreters or with the help of (voluntary) assistants of the organisation within which the interview was taking place. As neither I, nor the interviewees were native English speakers, considerable effort has been placed on ensuring the accuracy of particular sensitive or significant information during interviews held either with or without interpreters or assistants. Direct quotations in the text have only been slightly corrected regarding their grammatical and semiotic correctness, in order to preserve the idiom and to understand the content. All interviews in the Polish language were conducted with the help of interpreters or assistants, as my command of the Polish language is still insufficient for that level of communication. Surprisingly, a number of the interviewees offered me the opportunity to conduct the interview in German.

Chapter 2 introduces the main theoretical framework of the thesis, which is informed by the vast literature of institutionalism and evolutionary approaches. In particular the latter strand has been identified as important in terms of a relevant geographical perspective on (regional) economic change, innovation and ‘learning’. This chapter will also introduce into Storper’s holy trinity approach and preliminary ideas how to interpret these ontological elements for the case of ‘newly emerging markets’. Chapter 3 is dedicated to the ‘post-socialist city’ and tries to combine recent efforts to conceptualise (economic) transformation in former socialist countries and the latest approaches in urban theory. Chapter 4 gives an overview and the ‘hard facts’ about economic development and processes in Poland and Upper Silesia respectively. Additionally, this chapter introduces the specific regional questions of restructuring, devolution of authorities and the main historical implications guiding and shaping the transformation process and the emergence of its institutions. Chapter 5 – the first of two chapters mainly informed by the author’s fieldwork and interviews – seeks to develop an insight into the currents of economic transformation processes, seen from the perspective of actors in the steel and coal industry (the state-owned sector), emerging small and middle-sized companies or global corporations and the network of organisations involved in regional economic restructuring. Chapter 6 provides evidence of the diverse local developments in selected Upper Silesian cities and the historical legacies which are politically used to redefine the region’s economic identity. It will be argued that this process is characterised by a struggle for economic and political power and gives reason to speak of an emerging competitive and capitalist urban environment. Chapter 7 is dedicated to bringing together the theoretical strands and arguments of the research. In doing so, the chapter presents an overview of the main outcomes of the thesis and suggests the argument that economic transformation in post-socialist territories might be interpreted as an ‘invention of a capitalist region’.



One significant outcome of the research is the argument that economic, social and spatial change does not take the same forms or find the same expression world wide. Most certainly, place matters because of the persistence of locally embedded sets of relations and conventions and their historical and cultural prerequisites. The case study in Upper Silesia also produces knowledge about the specificity and nature of post-socialist economic and spatial processes in contrast to western experiences. Furthermore, the thesis shows that the distinction between west ('capitalist') and east ('post-socialist') Europe is artificial or overstated. Increasingly, such a division, it is suggested, will become obsolete, as both economic spaces become ever more interdependently entangled.

## 2 Institutional Economic Change and Space/Time

During the two centuries since the publication of Adam Smith's "The Wealth of Nations", neo-classical economists have been engaged in identifying and filling the gaps in the classical framework with the process of abstract analysis and the application of complicated mathematical models with an increasingly narrow focus on the determination of prices: the emphasis on approach of the 'invisible hand' of the market has encouraged the neglect of other aspects of the economic system, which govern the process of exchange. The neo-classical theory analyses the system as one of 'extreme decentralisation' (H. Demsetz) with a focus on what happens in the market, such as the acquisition of factors of production and sales of the goods that these factors produce. It has no interest in the *internal* arrangements of the organisations and institutions involved or their change over time, although with his exploration of the 'invisible hand' Smith effectively acknowledges that the interests of individuals generate unintended social outcomes (see Rutherford 1996:83-84). In practice, therefore, he also acknowledges the existence of social phenomena which are not the result of – for instance - positive legislation (formal institutions), but of human interaction and agency.

The main ontological assumptions of orthodox neo-classical theory include a belief in the rational behaviour of individuals which collectively generates a tendency towards the general equilibrium of economic processes. The economic world is generally modelled mathematically without any reference to transport costs or the role of place, space and time (Krugman 2000:49).<sup>23</sup> As Coase puts it, "What is studied is a system which lives in the minds of economists but not on earth" (Coase 1992:714). In other words, it can be

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<sup>23</sup> Despite a "peaceful revolution" (Krugman 2000:49) of mainstream economics during the 1980s and the emergence of (mathematically-based) 'New Economic Geography' (NEG) in the 1990s, which acknowledged e.g. imperfect competition and multiple equilibria, it is no exaggeration to state that "geographical economists" (the exponents of NEG) have remained rather indifferent to the cultural/relational turn of "economic geographers proper" and their emphasis on non-market transactions and institutions (Overman 2004).

summarised as determinist, reductionist, ahistoric, and teleologic (Barnes 1997:233-234). One reaction to the apparent gap between the theories of neo-classical marginalist economics and the working of the economy in practice was the development of new approaches to economic thinking at the turn of the 20th century, which came to be labelled 'institutional economics', a generic term that includes many different strands of thinking, including evolutionary economics.

It is useful to distinguish between old and new institutional strands in the historical development of economic thinking (see Rutherford 1996). Both approaches are concerned to incorporate and understanding of the role of institutions in economics, but they differ significantly in philosophical and methodological orientation. What I have identified as the old institutionalist approach predominates in the US and draws on a tradition associated with authors such as Thorstein Veblen, Wesley Mitchell, John R. Commons, and Clarence Ayres. Within this old school of thought there are two research programmes of major theoretical significance.

The first of these is associated with Veblen (1857-1929) who is - despite significant differences - with Schumpeter (1883-1950) one of the founding fathers of institutionalism and evolutionary economics. This approach is built around the identification of a fundamental dichotomy between the business or financial aspects and the industrial aspects of the economy. It focuses on investigating the effects of new technology on institutions and the ways in which established social conventions and interests resist change. These ideas encompass a view of the structure of the modern economy that stresses the political and economic power of large corporate interests (Rutherford 1996:2). Veblen's approach in contrast to the mathematically formal analysis of neo-classical theory bases itself on biological thinking and the attempt to conceptualise a 'post-Darwinist', evolutionary economic approach. In doing so, Veblen not only applies the principle of variation, as a

precondition of selection, to economic processes, but also a genetic understanding of evolution which incorporates principles of heredity or continuity, and the struggle for existence (Hodgson 1993:123-138).<sup>24</sup> Veblen and some of his successors suggest that the units of selection in economic evolution are institutions, expressed as habits and routines, and argue that some of these institutions become extinct because they are not adapted to their socio-economic environment (ibid:48). In the last chapter of one of his major works, “The Theory of Business Enterprise”, Veblen emphasises the provisional and procedural nature of institutions as well as the human interaction necessary for their formulation.

“The institutional basis of business enterprise – the system of natural rights – appears to be a peculiarly unstable affair. There is no way of retaining it under changing circumstances, and there is no way of returning to it after circumstances have changed. It is a hybrid growth, a blend of personal freedom and equality on the one hand and of prescriptive rights on the other hand” (Veblen 1994 [1904]:375).

The second strand within the old institutionalist school of thought is mainly associated with the writings of John R. Commons (1862-1945). This programme concentrates on law, property rights and organisations, their evolution and impact on legal and economic power, economic transactions, and the distribution of income. Here, institutions are seen largely as the outcome of formal and informal processes of conflict resolution, the criterion of success being whether the institution has generated “reasonable value” or “workable mutuality” out of conflict (Rutherford 1996:144-146). This approach is in some ways complementary to the Veblen approach, which does not address the judicial and political processes of conflict resolution central to Commons’ work, but there are tensions between them, especially reflected in Commons’ rejection of any dichotomy between business and industry. Moreover, Commons widely rejected biological explanations in his major work

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<sup>24</sup> In this respect Veblen's understanding of an evolutionary economy considerably varies from Schumpeter who in many of his writings draws from a developmental and not a genetic interpretation of evolution. Schumpeter dismissed an over-interpretation of biological-reductionist thinking in economics and regularly criticised the American tradition of institutionalism (Hodgson 2001:187-189).

“Institutional Economics”, and noted that the comparison of society with an organism was a “false analogy” (Commons 1934, quoted in Hodgson 2001:167). Instead, he stressed the importance of the subjective reasoning of individuals – not as isolated atoms, but socially related with others. Commons also emphasised ‘customs’ and the peculiarity of time-space in the process of institution building.

*“The subject-matter with which the economist deals (...) is human beings whose activities he can fairly well understand by putting himself ‘in their place’ and thus constructing ‘reasons’, in the sense of motives or purposes, or values, of their activity under all the variable conditions of time and space” (Commons 1934, quoted in Hodgson 2001:168-169).*

In some ways, the Commons tradition of institutional thinking, his perspective on institutional change - and emphasis on transactions, property rights, and organisations embedded in historical processes, geographical locations and endowed with certain routines - has closer links with the new institutional economics than Veblen’s approach.

The new institutional economics is just as disparate as the old. One major strand, associated with the work of Harold Demsetz and Richard A. Posner, lays emphasis on property rights (as Commons does) and common law. Another strand is concerned with public choice processes, rent seeking, and the impact of pressure groups on economic development, expressed, for example, in the work of Mancur Olson. A third important element is to be found in agency theory and the work on transactions costs, developed by Ronald H. Coase and later by Oliver E. Williamson (for an overview see Nelson 2002). Although the new institutionalism may at some points have lost earlier understandings of markets as social institutions – and developed an ahistorical perspective (Hodgson 2001:251) - many earlier and new elements of this interrelated theoretical thinking can be found combined in the institutional economic history of Douglass C. North, which is probably the most recent integrated approach (North 1990). Thus, the new institutionalism

has also made efforts to incorporate earlier Austrian and neo-Schumpetrian thinking, as well as the German historical school of the 19<sup>th</sup> century, to explain various types of institutional development and market processes (Gloria-Palermo 2002 [1999]).

It would be wrong to conclude that the ‘new thinking’ generated a total opposition toward the neo-classical approach. Instead, neo-institutional economists appreciate the achievements of that theory in illuminating many aspects of the economic system and so seek to integrate the institutional approach into the “blackboard economy” (Coase 1992:714) in order to build a more realistic and non-mathematical analysis of the industrial structure of production (Rutherford 1996:21-22; see also Zimbauer 2001).<sup>25</sup> Moreover, institutional and evolutionary approaches help to identify the preconditions for innovation and economic development in less-favoured regions or cities, as every economic action is locally ‘embedded’, a fact long neglected by standard economic theory.

The different strands of institutional thinking have helped to generate a new pluralism in economics and an ongoing debate over the interrelationship of the Natural and the Social in explaining economic processes (Mirowski 1994). This process is conceived of as a “development of technologies, markets, and institutions as pathways whose historical trajectory is governed by the complex interplay between prevailing rules of social order, and the probing and experimental character of much economic behavior in the context of prior states of the system” (Scott/Storper 1992:5). In the following, I will develop an overview of some of the main aspects of institutional thinking in general, before moving on to provide a summary of evolutionary concepts (in Section 2.2) and introducing the main geographical implications of institutional and evolutionary theory (in Section 2.3).

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<sup>25</sup> In fact, many authors who influenced the new institutional school have a neo-classical background or are architects of neo-classicism, such as Alfred Marshall, who wrote about different categories of firms, the importance of proximity in delivering external economies of scale, or the role of entrepreneurship as a guiding aspect of industrial progress (see Asheim 2000:414). Other authors, such as Friedrich A. Hayek, who are linked with institutionalism, are even protagonists of neo-liberalism.

## 2.1 Elements of the Institutional Approach

An early attempt to challenge mainstream economics with its mechanical, Cartesian economic view of static equilibrium and the imagery of the well informed and thus rational acting *homo oeconomicus* comes from Thorstein Veblen, an ‘old institutionalist’. He sought to understand the action of individuals and firms with a perspective in which economic inertia and habit become interrupted by creativity and curiosity. Instead of assuming a linear economic development (like Schumpeter), he stresses a spiral (up- or downwards), circular economic process of ‘cumulative causation’, a concept that was later taken up by economic development theorists, such as Gunnar Myrdal in the 1950s (Myrdal 1957).<sup>26</sup> In Veblen’s article “Why is Economics not an Evolutionary Science” (published in 1919) he notes that

*“an evolutionary economics must be a theory of a process of cultural growth as determined by the economic interest, a theory of a cumulative sequence of economic institutions stated in terms of the process itself (Veblen 1919, quoted in Cooke/Morgan 1998:197).*

He takes up a similar view to Joseph Schumpeter with his notion of ‘the economy’ as an evolutionary process. Where Veblen stresses the process of ‘cultural growth’ as a determinant of economic performance and institutional change, it is Schumpeter who describes technological innovation as a ‘creative destruction’ and both thus deliver a starting point for modern economical thought (Nelson 2002:19).<sup>27</sup> Later articulations of an evolutionary theory of the firm, technological change and its underlying and procedural set of institutions form the main elements of this chapter.

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<sup>26</sup> Originally, the ‘circular causation’ was introduced by Schmoller in 1900 (Hodgson 2001:116).

<sup>27</sup> Together with Schumpeter (‘innovation and entrepreneurship’), other important authors who were directly engaged in this early discussion about ‘non-economic’ impacts on the economy are Max Weber (‘protestant ethics and capitalism’) and Frank H. Knight (‘uncertainty and perceptiveness’) (see Brouwer 2002).

### 2.1.1 Transaction Costs

An important input into institutional economy came through the formulation of what was later called the transaction cost theory, developed by John R. Commons and Ronald H. Coase in the 1930s, and elaborated by Oliver E. Williamson in the 1970s and 80s. In “The Nature of the Firm” (1937) Coase identified ‘transaction costs’ which arise from negotiations between possible business partners, the procedures of contracting, mutual inspection, and arrangements to settle disputes between them.<sup>28</sup> At this time most economists were focused on the analysis of price systems and neglected the internal and external arrangements of firms or saw them as ‘black boxes’ in their research. Coase’s main research question was focused on a contradiction: management, co-ordination, and planning are taken for granted within firms, so “Why was it needed if the pricing system provided all the coordination system?” (Coase 1992:715), as was assumed by his colleagues. The answer – that costs are evolving by using the pricing system and a firm can be described as an organisation which is founded to reduce these costs by efficient management and co-ordination – implies that in a competitive system,

*“...there would be an optimum of planning since a firm, that little planned society, could only continue to exist if it performed its coordination function at a lower cost than would be incurred if it were achieved by means of market transactions and also at a lower cost than this same function could be performed by another firm” (Coase 1992:716).*

In other words, the existence of transaction costs is the main reason for the existence of firms. Moreover, these costs also affect what goods and services are produced, because if the costs of making an economic exchange are higher than the expected profits, that exchange will not take place. It is the role of institutions to reduce these transaction costs

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<sup>28</sup> In practical terms these are costs arising from “defining, protecting, and enforcing the property rights to goods” (North 1990:28), e.g. through banking, insurance, finance, accountants lawyers, wholesale, retailing etc. North notes that the total costs of production result from the sum of transaction and transformation costs. The latter costs accrue from “resource inputs of land, labor, capital involved (...) in transforming the physical attributes of a good” (ibid.).



to a minimum in order to strengthen economic activities and growth. This ‘contractual approach’ to the study of economic organisation is based on two behavioural assumptions: a bounded rationality (limits of what agents can know) and opportunism (the self-interest seeking agent). The key argument in this approach is that when exchanges between firms involve high transaction costs (e.g. through frequent ‘uncertainty’) these exchanges become transferred from markets to alternative governance structures, such as hierarchical, vertical structures or long-term-contracting (Cooke/Morgan 1998:14). A weakness of this approach is the assumption of given in- and outputs as well as technology. Although this concept helps to understand the organisational shape of a firm, it describes the firm only as a vehicle to reduce transaction costs, and not as a carrier of institutional change and innovation in spatial arrangements.

Later efforts to elaborate transaction cost theory are mainly associated with Williamson, who aimed to develop an understanding of the internal organisation and function of firms and market structures, in particular vertically integrated production processes of larger corporations and alternative disintegrated input relations (through market transactions). From his perspective, the mode of organisation and hierarchy of production can be best understood as an internal effort minimising transaction costs, whereby a “set of transactions ought to be executed across markets or within a firm depends on the relative efficiency of each mode” (Williamson 1975:8). Additional extensions of Williamson’s approach focus on aspects of network embeddedness, time and trust in internal and external input/output relationships of firms and their suppliers, concepts which are taken up later in this chapter (Berger/Noorderhaven/Nooteboom 2002 [1995]). Williamson’s approach has been widely taken up in geography, in particular in terms of an explanation of spatial clustering of firms, necessary for reducing (besides transport costs) transaction costs taking place between them (Scott 1988). Transaction cost economics has linked the theory of the firm with that of the production system and thus has “shown that the

geography of transaction costs helps explain agglomeration and spatial divisions of labor” (Storper 1997:35). Other observers are less enthusiastic, as Williamson’s conception of markets and the “primeval identity” he gives them is said to have “robbed [them] of their historical, structural and institutional characters” (Hodgson 2001:251).<sup>29</sup>

### 2.1.2 Institutional Change

Generally, institutions can be described as organisations which are endowed with authority “(...) to perform some specific tasks on behalf of society as a whole” (Castells 1996:152). The economic historian Douglass C. North, a neo-institutionalist, emphasises a clearer distinction between organisations and institutions with an analogy from team sports:

*“...what must be clearly differentiated are the rules [institutions] from the players [organisations]. The purpose of the rules is to define the way the game is played. But the objective of the team within that set of rules is to win the game— by a combination of skills, strategy, and coordination; by fair means and sometimes by foul means” (North 1990:4-5).*

Organisations can be political (parties, council etc.), economic (firms, unions etc.), social (churches, associations etc), or educational bodies (schools, universities etc.). They all depend heavily on the institutional framework and are influenced by it: institutions are “...humanly devised constraints that shape human interaction” (North 1990:3) and can be formal (rules, legislation etc) or informal (conventions, codes of behaviour etc.), created or evolving, prohibiting or permitting (ibid:4), fundamental (e.g. a constitution) or secondary (by-laws, amendments etc.) (North 1971:122f). In North’s view, institutions are important in understanding the source of agency in processes of co-ordination and co-operation for reasons of motivation, norms of behaviour, and stability. Motivations “structure incentives in human exchange, whether political, social or economic” (North 1990:3) - hence they

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<sup>29</sup> Hodgson's statement targets Williamson's biblical claim that “in the beginning were markets” (Williamson 1975:20).

shape actors' decisions as to whether it is in their mutual interests to co-operate.<sup>30</sup> It is useful to distinguish between soft institutions, such as patterns of economic behaviour, from hard institutions, such as written legislation. As institutions influence economic performance by creating costs of exchange (transaction costs) and production (transformation costs), economic bodies are interested in changing the institutional framework according to their objectives and interests, in particular in terms of profitability (North 1990:118). Thus, there is not a simple one-way dependency of economic organisations, but an interaction which determine the opportunities in a society with changing institutions by time.

In North's approach, one major role of institutions is to reduce the uncertainty involved in human interaction by structuring and simplifying exchanges and thus helping to enable the making of (limited) choices, because "The more complex and unique the issue we confront, the more uncertain the outcome" (North 1990:22). The reduction of uncertainty provides stability within particular systems across space and time and determine the opportunities in society, but it does not guarantee that formal and informal constraints are efficient in an economic sense (ibid:83). Economic organisations are created to take advantage of those opportunities, and as they evolve, they alter and aim at the changing of institutions, fuelled by changing relative prices or preferences, which are the most important sources driving this process (ibid:84).<sup>31</sup>

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<sup>30</sup> North rejects rational choice theory which typically assumes that actors "posses cognitive systems that provide *true* models of the worlds about which they make choices (...)" (North 1990:17; original emphasis). Instead, he advocates a behavioural model which integrates a) the motivation of humans and b) their strategies for deciphering the environment. Drawing from socio-biology, the evolutionary terms used underline the non-wealth maximising values of humans (in order to survive under certain circumstances) and the incomplete processing of information in the progression of decision making, a fact which leads to uncertainties and a limited choice set – or in other words to multiple equilibria where a number of solutions are possible and the outcome is indeterminate (see North 1990:17-26).

<sup>31</sup> North mentions changes in factor prices such as changes in the ratio of land to labour, labour to capital, and capital to land. Other price changes include changes in the cost of information and changes in cost of technology (North 1990:84).

The complex process of institutional and technological change – “the basic keys to societal and economic evolution [exhibiting] the characteristics of path dependence” (North 1990:103) - is typically incremental in nature. North identifies wars, revolutions, conquest, and natural disasters as sources for ‘discontinuous’ institutional change as a consequence of radical change in the formal rules (ibid:89). But while the formal rules change, the informal constraints do not.

*“In consequence, there develops an ongoing tension between informal constraints and the new formal rules, as many are inconsistent with each other. (...) Although a wholesale change in the formal rules may take place, at the same time there will be many informal constraints that have great survival tenacity because they still resolve basic exchange problems among participants, be they social, political, or economic. The result over time tends to be a restructuring of the overall constraints – in both directions – to produce a new equilibrium that is far less revolutionary” (North 1990:91).*

This raises a number of general questions concerning the path of historical change in different societies. What explains and what accounts for the divergence and gap between rich and poor nations? How have these nations, regions, or cities diverged? (see North 1990:92). An ‘institutional answer’ to the question of why there are economies which are not successful can be found in the interaction between organisations and institutions which shape the path of institutional change: the resultant path of institutional change is shaped by the lock-in of the resultant organisations as a result of the dependence on that institutional framework.<sup>32</sup>

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<sup>32</sup> The term lock-in was originally introduced by Arthur (1989) who observed that technology develops along pathways or trajectories. The choices and decisions made in this process are often irreversible although the outcomes may be unpredictable. This technological pathway can lead as a consequence of self-reinforcing mechanisms to an inferior product or even to a blind alley – a lock-in from which it is difficult to escape (see North 1990:94). Both, ‘path dependency’ and ‘lock-in’ can also be applied to the analysis of institutional change (and not only technological change). In geography these evolutionary terms have been taken up in general to explain “how the future development of an economic system is affected by the path it has traced in the past” (Grabher/Stark 1997:535) and in particular the implications for technological change in regional economies (Storper 1997:18-22).

“...(1) the lock-in that comes from the symbiotic relationship between institutions and the organizations that have evolved as a consequence of the incentive structure provided by those institutions and (2) the feedback process by which human beings perceive and react to changes in the opportunity set” (North 1990:7).

A question which flows from this analysis is *which* economic spaces are affected by these lock-ins with high transaction costs and *how* it might be possible to break open the ‘symbiotic relationships’ and ‘unholy alliances’ that lead to the formation of economically deprived areas. The concept of path dependency in institutionalist thinking involves – besides its biological terminology - a strong historical determination which emphasises the importance of cultural inheritance from the previous order, but typically lacks the explanation of institutional *innovation*. Unsound political and economic decisions as well as institutional arrangements of the past lead to certain (irreversible) trajectories of the economic performance in the future and different levels of ‘efficiency’ today, a perspective which implicitly denies “the possibility of political control over the process of transformation” (Beyer/Wielgohs 2001:362). Newer analysis of comparative institutional change (and transformation processes) tends to stress the *potentials* of past institutional arrangements for present and future developments, rather than to see these legacies as a burden (Stark/Bruszt 1998:7).

But is it really like this, so that the ‘historical wheel’ cannot be pushed back in order to create a more sound economic and social institutional setting for the next generations? In a brief dialectic account of economic history, Douglass North draws a euro-centric picture of progress starting with the “primitive” place-bounded village trade dependent on a “dense social network of informal constraints” (North 1990:120) and leading over time to long-distance trade, the creation of capital markets, and specialisation, hence “the creation of more sophisticated institutional arrangements” (ibid:122). While there is no doubt about the evolution and refinement of (formal) institutional arrangements over the last centuries,

the notion of 'place' as inferior against 'distance' (and thus space) in terms of institutional development might be overstated, because the villages which grew to cities were not only the hubs of emerging long-distance trade, but also the centres of institutional economic, political, and social change.

The term 'institution' is typically used in two senses. Either it means, in Douglass North's sense, informal and formal institutions such as common habits, routines, established practices, rules or laws that constitute and organise the relations and interactions between individuals, groups and organisations. In a more practical sense, 'institution' is also used to mark an arrangement for the promotion of a public project, e.g. the co-ordination of economic and political action in specific geographical and historical contexts. If political-economic arrangements take the quality of institutional change – as expressed, for example, in the transformation from socialism to market economy - the meaning and relations of power in this process as well as the direction of this change have to be recognised.

In neo-classical economics, 'power' is often used in the one-dimensional and simplistic sense of dominance – in particular the 'power over' markets, prices or monopolies, "but there is really little analysis of the process by which such power is established or explanation of what exactly allows the dominant firm to continue to exert such market power" (Young 2002 [1995]:52).<sup>33</sup> Institutional thinking has tended to focus on diverse criticisms of mainstream economic theory rather than producing an alternative perspective of the meaning of power in economic and political relations (ibid:49). However, Allen argues that power – besides being an exercised ability in the form of 'power over' – also

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<sup>33</sup> Some of the Austrian economic thinkers even denied the existence of power in market economies. Hayek stressed the voluntary nature of exchange with reference to competitive capitalism, because "to believe that power is thus conferred on the state is merely transferred to it from others is erroneous. It is a power which is newly created and which in a competitive society nobody possesses" (Hayek 1944, quoted in Young 2002 [1995]:55).

exists as a networked agency, as the ‘power to’, a medium or “resource for achieving diverse ends (...) – be they concerned with entering hitherto closed markets, exploiting the latest technology or whatever – rather than upon how power constrains social or individual action” (Allen 1997:62). In contrast to the “instrumental” *form of power* (the ‘power over’), “associational” power (‘power to’) yields a form of collective empowerment, “a means of enablement where all those taking part may benefit in some way” (Allen 2003:5).<sup>34</sup> Individuals and organisations collectively engage with others in networks in which diverse lateral as well as vertical *modes of power* – such as domination, authority, coercion or seduction - being used to define and to establish a collective orientation with significantly different pronouncements and consequences over space-time in general and questions of proximity and distance in particular (Allen 2003:10). This form of power - seen as a collective capacity for resource mobilisation and co-ordination - is increasingly important in a ‘network society’ where information processes and knowledge creation become crucial for economic success.<sup>35</sup> In terms of economic transformation in former socialist countries, the network capacity of all kinds of actors – political and economic - and their socially created forms and modes of power in the process of institutional change, its direction and consequences over space-time have to be an aspect of analysis.

The following section focuses on evolutionary theory with a short introduction to the Schumpeterian tradition and the discussion of some central terms, such as knowledge, learning, social capital, embeddedness, and networks to explain and understand economic

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<sup>34</sup> Allen notes that the theorisation of ‘networked power’ – in particular by Castells and Mann – and their notion of ‘power’ as a fluid medium which “‘travels’ or flows through the multiple networks that comprise society” must be seen with caution (Allen 2003:8). Instead of ‘power’ being perceived as a “‘thing or attribute that can be possessed” and transmitted across space and time, Allen suggests that ‘power’ is a constitutional part of space-time and a relational consequence of social interaction (ibid.). In doing this, Allen takes the view of Foucault and Deleuze, where “Subjects are constituted by the spacing and timing of their own practices as much as they are by those who seek to shape their conduct” (Allen 2003:8-9).

<sup>35</sup> Cumbers et al. criticise the extent to which institutional approaches in economic geography have become one-sided, by “privileging processes of interfirm cooperation and collaboration (power to) over the relations of conflict and dominance (power over) which were recognized (if not conceptualized) within the older tradition of institutionalism” (Cumbers/MacKinnon/McMaster 2003:328). Peck (1995) stresses that institutional approaches typically neglect the shaping of economic discourses as one form of exercising power.

processes. This approach has recently become influential in economic geography in terms of conceptualising the region as a geographical and social nexus of territorial economic development – and institutional change. While the importance of place-specific cultural formal and informal institutions in path-dependent economic trajectories has been stressed, some commentators point to the need for a ‘cultural turn’ or even a ‘new economic geography’ (see Hudson 2000:16-18 for a short summary).

## **2.2 Evolutionary Economics and Regional Development**

The evolutionary economy approach draws on Veblenian and Schumpeterian thinking with its notion of innovation and its use of institutionalist concepts. As noted above, the two approaches, institutionalism and evolutionary economics, are historically interlinked (Nelson 2002:18-20), although the evolutionists have a different focus which additionally encompasses actors, network learning, knowledge creation and technology in economic processes. The microeconomic foundations of evolutionary theory are – like institutional theory - based on a theoretical critique of the neo-classical conception of the firm. The approaches share a central interest in understanding the determinants of economic performance and patterns of actions, understood in behavioural terms as well as rejecting ‘maximisation’ as a process that characterises what humans do. The theoretical understanding of economic evolution and industrial transformation has been enhanced by the relatively recent reintroduction of concepts such as path dependence, increasing returns to scale, technological trajectories, and historical lock-in and is linked to the notion of a knowledge based economy. Before this recent development in theoretical production is outlined, some aspects of the historical sources are introduced.

Schumpeter, one founding member of evolutionary political economy (see Hodgson 1993:139-151; Cooke/Morgan 1998:10-13) emphasises both an individualist and a



socialised model of the economic agent<sup>36</sup> and understands economic processes as ‘creative destruction’ which embraces much more than just technological innovation, but includes

*“(1) the introduction of a new good; (2) the introduction of a new method of production; (3) the opening of a new market; (4) the conquest of a new source of supply; and (5) the development of a new form of industrial organisation” (Schumpeter 1934, summarised in Cooke/Morgan 1998:10).*

In Schumpeter’s seminal work “Theorie der wirtschaftlichen Entwicklung” [theory of economic development], the economics of technology and its ‘new combinations’ of the above mentioned elements (Schumpeter 1911:146-154, translated in Becker/Knudsen 2002:408-414) provides an explanatory framework for the analysis of the sources of growth: the institutional environment and historical trajectories in fostering and guiding technological change induce productivity growth and ‘quality competition’ among firms:

*“...economic development is not a phenomenon to be explained economically, but that the economy, in itself without development, is dragged along by the changes in the surrounding world, that the causes and hence the explanation of development must be sought outside the group of facts which are described by economic theory (Schumpeter 1911:103, translated in Becker/Knudsen 2002a:405).*

Although a linear model of economic development is theoretically dead in our times, which has been corrected by neo-innovation theory (Cooke/Morgan 1998:13), Schumpeter focuses on the path dependency of economic processes and hence lays the foundation of modern evolutionary thinking.

*“Every concrete process of development<sup>37</sup> creates the prerequisites for the following. Thereby the form of the latter is altered, and things will turn differently from what they would if every concrete phase of development*

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<sup>36</sup> The early Schumpeter focused more on the owner-managed firm, whereas the late Schumpeter focused more on large corporations and their networks as national innovation motors. This “is an unresolved tension, between the individual and social, running throughout his work” (Cooke/Morgan 1998:10). For an overview of this conceptual process in Schumpeter’s thinking see Becker/Knudsen (2002:392-395).

would be compelled first to create its own conditions" (Schumpeter 1911:107, translated in Becker/Knudsen 2002a:408).

What emerges from evolutionary analysis is an aspect of economic development, which has been differently interpreted and conceptualised by contemporary authors. Putnam focuses on 'social capital' (Putnam 1993), while other authors introduce terms such as 'untraded interdependencies' (Storper 1997:5), 'institutional thickness' (Amin/Thrift 1994:14) or 'associational capacity' (Cooke/Morgan 1998:33) as important carriers of economic processes. Summarised in Douglass North's sense as informal institutions (North 1990), they shape the capability or incapability of economic action and innovation as an ensemble of social relations in which different actors of all sorts interact.<sup>38</sup> Concepts such as embeddedness, trust, networks or knowledge and learning play an important role in this evolutionary view, which goes much further than what might be labelled as an evolutionary economy approach, as scholars from all the social sciences have contributed to the development of this research field.

### 2.2.1 Knowledge, Learning and Innovation

Knowledge, learning and innovation processes are at the centre of evolutionary analysis, which seeks "to understand how this trinity contributes to uneven processes in capitalist development" (Morgan 2004:6). In contemporary evolutionary thinking, firms are no longer simply seen as a tool for efficient economic transactions, what might have been suggested in Coase's transaction cost theory. Instead, recent efforts have been focussing on

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<sup>37</sup> Schumpeter defines 'development' as "only such changes in economic life as are not forced upon it from without, but arise by its own initiative from within" (Schumpeter 1911:103, translated in Becker/Knudsen 2002a:405). In contrast to Veblen, in many of his writings Schumpeter's interpretation of 'evolution' has 'developmental' connotations, to the extent that his complete work has been classified as a 'genetic' approach of economic evolution (see Hodgson 1993:39).

<sup>38</sup> It is probably dangerous to 're-brand' different terms under one heading, as abovementioned authors utilise considerably different focuses and concepts in elaborating their ideas. But it is at least safe to say that North's concept of informal institutions plays a crucial role in understanding later efforts to conceptualise and widen the process and prerequisites of economic development in evolutionary thinking.

the firm as the “repositories of competences, knowledge, and creativity, as sites of invention, innovation, and learning” (Amin/Cohendet 2004:2).<sup>39</sup> Knowledge plays a role in establishing and sustaining the long-term capabilities and performance of firms and organisations, because it is “path-dependent in the usual sense that directions for future development are foreclosed or inhibited by directions taken in past development” (Nooteboom 1997:57) so that “decisions are made in the middle of uncertainties amongst which it is practically impossible for a sure case to be guaranteed” (Akrich/Callon/Latour 2002 [1988]:194). The focus on knowledge creation and continuous learning processes has not been limited to firms and economic actors, but widened to spatial economics in general, and in particular to regions as an important nexus of those relational dynamics which in turn is seen to stimulate economic growth and development (Cooke/Morgan 1998:60-82).

Terms such as ‘regional learning’, ‘regional innovation systems’ and ‘knowledge economy’ are not only highlighted in academic writing, but have become the standard repertoire of the European Union and its regional economic policies – in Central and Eastern Europe already before the official accession in 2004. This development reflects the widely shared view “that knowledge is the most important resource in innovation and learning is the most important process, an interactive and socially embedded process which cannot be understood outside its cultural and institutional context” (Morgan/Nauwelaers 1999:6). Despite the claim of specific place-bounded contexts in the process of knowledge creation, ‘innovation through imitation’ – “the comprehensive adoption of institutions and

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<sup>39</sup> Amin and Cohendet (2004:5-6) identify three major approaches concerning knowledge in firms: first, the strategic-management approach, which focuses on the structure of firms, their procedures and managers; second, the evolutionary-economics approach, a “hybrid theory (...) including the principle of heredity played by routines, the principle of generation of variety, and the principle of selection – and an emphasis upon routines as the key collective organizational device for cognition” (Amin/Cohendet 2004:5-6); third, the social-anthropology-of-learning approach, which is concerned with knowledge creation through social interaction. In the following, only the evolutionary approach to knowledge is explored.

policies that have proved their value over the years in the West” (Keune/Kiss/Tóth 2004:586) – has been on the agenda in Central and Eastern Europe.<sup>40</sup>

In contrast to information, knowledge - seen as a specific know-how or skill - is the “rare, scarce, not easily imitable heart of the competitive process in contemporary capitalism, the source of superprofits and the key to relations of domination and subordination” (Storper 1997:238).<sup>41</sup> Knowledge has been defined as a “dynamic framework or structure from which information can be stored, processed and understood” (Howells 2002:872) or as “a set of organized statements of facts or ideas, presenting a reasoned judgement or an experimental result, which is transmitted to others through some communication medium in some systematic form” (Bell 1973, quoted in Castells 1996:FN27). Drawing from Foucault and Cassirer, Allen argues that the abovementioned definitions mainly focus on the easily transferable cognitive, codified, and abstract forms of knowledge and thus neglect the expressive symbolic and representational aspects of knowledge creation, underlined with Cassirer’s demand that “knowledge must convey the totality of cultural forms” (Cassirer 1957, quoted in Allen 2000:20).

The relational nature of knowledge – the ‘knowing self’ - has been stressed in the context of events or entities (Plotkin 1994:40) – and in terms of its spatial qualities. Law and Hetherington argue that “knowledge, objects and people (...) are *relational effects* or

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<sup>40</sup> In a comprehensive quantitative study of ‘innovation capabilities’ in the (former) EU accession countries the authors identified three major groups of indicators alongside general economic conditions (Mickiewicz/Radosevic 2001). The first of these is human resources such as the structure of qualifications and employment; the second, knowledge creation and investment, in particular research output measured in patents and scientific papers; and the third, the transmission and application of knowledge, i.a. operationalised by IT infrastructure and ‘innovation activities’. However, the impact of EU-funded programmes in CEE has been estimated as rather minor because of the scale of restructuring problems and the complex nature of innovation processes. “Together with large local and inter-regional coordination problems [it] may explain why in CEE we cannot find regional systems of innovation and cooperative networks but only local centres of industry excellence and loose project networks” (Radosevic 2002:94).

<sup>41</sup> Despite high asymmetries and hierarchies between focal transnational corporations and their SME suppliers organised in supply chains, recent studies suggest that forms of explicit knowledge and their limited diffusion might nonetheless create learning processes and innovation through close interfirm collaboration – and “significant levels of subsidiaries’ embeddedness within the host country”, even in less favoured European regions (Vale 2004:138).

*emergent phenomena*” (Law/Hetherington 2000:39; original emphasis), because “making action and knowledge at a distance not only makes action, knowledge and global asymmetry (...) [but] also *makes distance and space*, performs these into being” (ibid.). Because “something gets lost, or degraded, when individuals and organizations communicate at a distance” (Morgan 2004:8), geographical proximity, tacit knowledge and face-to-face-communication have increasingly been on the agenda of evolutionary analysis in urban and regional contexts, alongside the economic co-ordination embedded in the existence of cities and agglomerations (Storper/Venables 2004).<sup>42</sup>

Polanyi (1958, 1967) argues that a distinction can be made between explicit (also labelled as codified or cosmopolitan) and tacit knowledge, but this dichotomy can be misleading because explicit knowledge involves tacit knowledge for its interpretation (Howells 2000:53).<sup>43</sup> Codified knowledge, being standardised, can be transferred over long distances and across organisations at a low price, facilitated and accelerated by information and communication technologies (Morgan 2004:4). Tacit knowledge however, being personal and situated, is not easy to pass on other than through personal interaction in a context of collective experiences, whereby “A local culture with specific norms, values, and

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<sup>42</sup> Storper and Venables draw their conclusions from the analysis of ‘buzz’ cities, identifying four functions of face-to-face contacts (F2F): face-to-face contact as a communication technology; the possibility of enhancing trust and incentives in (economic) relationships; F2F for reasons of screening and socialisation (examination and certification of possible network members); and to “generate the rush that pushes us to make greater and better efforts” (Storper/Venables 2004:357). The authors suggest (ibid:365) that the agglomerative force of some cities is based on classical network agglomeration efficiencies and interactive knowledge activities including creative and cultural functions, finance and business services, science, research, high-technology, and power and influence: “The cities’ attraction for talent and their efficiency in socializing individuals confer important advantages on their participants. Buzz cities continue to have such force today because they are the places where, more than ever, critical problems of coordination in the modern economy are resolved through F2F contact” (Storper/Venables 2004:366).

<sup>43</sup> The interrelation between explicit and tacit knowledge in a ‘knowledge-creating company’ has been emphasised by Nonaka/Takeuchi (1995) who focus on the emergence of knowledge out of conversations between people’s explicit and tacit knowledge. They identify two dimensions of knowledge creation. First, an ‘epistemological dimension’ explained through the social interaction between both forms of knowledge and second, an ‘ontological dimension’, emerging from knowledge interaction across different levels, such as individuals, groups, organisations (see Amin/Cohendet 2004:5; Castells 1996:159-160). The process of codification has been compared with a spiral movement where tacit knowledge is transformed into codified knowledge, “followed by a movement back to practice where new forms of tacit knowledge are developed and this spiral movement lies at the core of individual and organizational learning” (Morgan 2004:4). The source of intra-firm innovation is the organisation’s capability “to establish bridges to transfer tacit into explicit knowledge, explicit into tacit knowledge, tacit into tacit, and explicit into explicit” (Castells 1996:159).

institutions (formal and informal) makes it possible to transfer tacit forms of knowledge from one actor to another” (Malmberg/Maskell 2002:433).

Howells summarises five aspects of interrelations between geography and knowledge/learning activities (Howells 2002:873-874). The first relates to the impact of place-dependent social, cultural, and economic circumstances on the ‘knowing self’, the individual and human *development*; the second to the influence of proximity and distance on human *interaction* and thus, the emergence of an place-bounded individual knowledge set; the third to the spatial constraints for an individual externally acquiring codified and tacit *information*; the fourth to the process of *learning* in a situated geographical, social and economic context; and the fifth to the process of filtering and *interpreting* information with the help of tacit and locally embedded know-how.

Learning has been defined “as a change in a person’s or organisation’s capability or understanding” (Cooke/Morgan 1998:68). Concepts focused on learning have been increasingly adopted as a solution to innovation and organisation deficits. Learning firms, the learning economy and recently also learning regions have been propagated as concepts for successful economic development. Economic geographers such as Malmberg even speak about the ‘learning turn’ in economic geography (Malmberg 1997:576), although others see this turn as exaggerated, in emphasising that learning is not the only route to corporate and regional economic analysis, because “the case for a regional political economy that remembers the lessons of a Marxian political economy and recognises capitalism as structurally and necessarily, inherently and unavoidable, characterized by uneven processes of growth and decline remains as valid as it ever did” (Hudson 2000:106-107). Hart shares this position pointing to the “multilinearity of capitalist development and

its inherently political character” which remains relevant in the contemporary market economy (Hart 1998:337-338).<sup>44</sup>

Contemporary approaches to regional studies like the learning region have been criticised as vague because empirical evidence is scarce or collected in an ‘anecdotal’ way and based on ‘fuzzy concepts’ (Malmberg 1997:578; Markusen 1999). This assertion sparked off a productive debate not only about the currents in regional analysis, but also about economic geography in general (see Hudson 2002c; Peck 2002; Lagendijk 2003).<sup>45</sup> However, advocates of the learning regions model assume that, with the help of particular policy measures and the emergence of a suitable institutional environment, it is possible to increase companies’ dependence on regional partners for technological learning and thus on the location itself. The idea is that firms rarely innovate in isolation, but through interaction with their environment, which is shaped by formal and informal institutional structures.<sup>46</sup> Due to the many different functions and tasks of a firm and its internal and external relations (e.g. production, marketing, logistics etc.) learning can take as many different forms such as know-what, know-why, know-how or know-who (Lundvall 2002 [1998]:28-29).

In a broader context, on a national and international level, economic learning processes propelled through trade, mergers, foreign direct investments etc. are said to be related through increasing socio-economic integration and convergence between the three recently

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<sup>44</sup> However, the ‘learning region’ is rather a hybrid concept, borrowing from earlier debates of regional development since the early 1980s. In the first chapter of Storper’s *Regional Worlds* (1997), the author summarises and discusses the three major strands in regional studies: first, the flexible specialisation school, a neo-Marshallian industrial district approach originally drawing their empirical evidence from the ‘Third Italy’ and other successful, specialised regions in the west; second, the ‘California school’ around Scott and Storper theorising the link between the division of labour, transaction costs, and agglomeration; third, the innovation school, mainly focussing on the development of high technology as an explanation for regional economic success.

<sup>45</sup> Section 2.3 introduces a broader reading into the current debates in economic geography.

<sup>46</sup> Borrowing from Franco-Italian-Swiss regional analysis of the late 80s and early 90s (see Storper 1997:16) this approach suggests that a certain economic-political ‘milieu’ is advantageous for achieving regional learning, “characterized by a specific set of material (firms, infrastructure), immaterial (knowledge, know-how) and institutional (authorities, legal framework) elements that ties firms, customers, research institutions, the school system and local authorities to each other” (Malmberg 1996:397).

distinctive national economic models, the Anglo-American, the Rhenish, and the Japanese model. Proponents of this argument point to the ongoing decline of national (formal) institutions, an intensification of competition on a global scale and an increasing meaning of transnational corporations for national markets (see Martin/Sunley 1997:281-283). Furthermore, it is said that 'best practice' solutions, as a key concept of management consulting, produce a kind of universal economic learning culture, which does not acknowledge the specificity of space and place (Gertler 2001).

### 2.2.2 Trust, Embeddedness and Networks

Certain characteristics of social structure and social relations that not only assist but are an integrative part of collaborative action and, as a result, improve economic performance have been identified as social capital.<sup>47</sup> The term has been popularised by the American political scientist Robert Putnam in his seminal work "Making Democracy Work" (1993).<sup>48</sup> Putnam's concept of social capital (1993, 1995) mainly consists of three key aspects of social organisation which have a strong affinity to institutional and evolutionary thinking. In Putnam's view, those aspects - networks, norms and trust - are seen as a public property, because they are likely to serve broader interests when they link large parts of a 'community' and thus enhance communication and co-operation.

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<sup>47</sup> The term was introduced by Coleman (1990) whose definition covers all kind of human actions, not only economic ones, because "for Coleman, social capital is to be found in any sort of social relation that provides a resource for action" (Foley/Edwards 1997:552). From this perspective, social capital interacts with other forms of capital, such as financial capital, human capital, symbolic capital, cultural capital etc. in the process of entrepreneurship.

<sup>48</sup> Putnam's assertion of social capital as decisive for successful economic development has also been applied in post-socialist Central and Eastern European spaces (see Cybula/Szczepański 1998; Åberg 2000; Raiser/Haerpfer et al. 2001; Tatur 2004:29-30). However, a comprehensive analysis of the European Bank for Reconstruction and Development (EBRD) concludes that "the stock of social capital is low in the transition countries. The relationship between (...) social capital and economic performance is not clear, however. We find that extended trust (...) is not related to growth. This distinguishes the transition countries from countries with a fully evolved market economy where this correlation does exist. Active participation in various civic groups, on the other hand, does correlate positively with growth, as does trust in public institutions" (Raiser/Haerpfer et al. 2001:1).



*"(...) features of social life - networks, norms, and trust - that enable participants to act together more effectively to pursue shared objectives (...) Social capital, in short, refers to social connections and the attendant norms and trust" (Putnam 1995:664-665).*

Norms and networks are created through high levels of participation in diverse forms of associational and civic activity which involve face-to-face interaction, generating a greater propensity towards mutual trust. Social capital is a (priceless) resource which emerges through membership of a social group and the social interrelations within such a group. The practice of dense social interrelations creates informal institutions, such as specific conventions, norms and routines – and thus provides high levels of mutual trust which “leads to an outcome better for the collectivity” (Granovetter 2002:39). These ‘network properties’ facilitate economic co-operation between organisations:

*"(...) market actions are constituted and shaped by the social relations, institutional norms, and interpersonal networks in which they are embedded—which amongst other things provide the glue of ‘trust’ and mutual understanding that in the final analysis makes many markets workable and sustainable" (Peck 2004:11).*

The notion of trust has not only been linked with a firm’s capacity for organisational learning, but with the reduction of transaction costs through cheaper contracts and other negotiated arrangements (Lundvall 2002 [1998]:40-42). Networks and co-operative norms between firms may create trust that also facilitates the rapid flow of information about best management practices or technological innovation, an increasingly important feature of contemporary capitalism. While Putnam’s conceptualisation of complex social processes, summarised in one rather simple term - social capital – has received wide-ranging and

justified critique, it is also widely accepted that some of his ontological assumptions might play a crucial role in understanding the functioning of economic transactions.<sup>49</sup>

While Putnam's work is only one starting point - and of course not the earliest - in conceptualising the meaning of 'the social' in 'the economy', far-reaching research beyond the new institutional economics school of thinking has been conducted in recent years. In many respects, the emerging 'new economic sociology' (NES) (Granovetter 1985, 2002; Guillén et al. 2002) can be seen as "entirely complementary" to the new institutional economics (NIE) and evolutionary analysis but, "The key difference is that new economic sociologists invoke networks as part of the initial conditions, whereas economists take these conditions as given" (Hart 1998:339). In economic geography, questions about the spatial embeddedness of social actions are, of course, not a novelty, because "it would seem reasonable to argue that the quality of relationships between individuals is shaped by, and itself shapes the character of, the contexts in which they live" (Mohan/Mohan 2002:193). Amin and Thrift claim that economic geographers' "understanding of open systems, appreciation of context, and qualitative techniques" is closer to heterodox economics where the "work on evolutionary political economy, economic sociology (...) all constitute examples of the rise of economic knowledges outside [orthodox] economics" (Amin/Thrift 2000:5). In following these arguments and recent trends (see also Peck 2004), the next sections further explore central terms of NES, such as the 'networks-and-embeddedness framework'.

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<sup>49</sup> In general, critiques of Putnam's work point to his shortcomings in conceptualising civic politics and the role of formal institutions or structural forces in creating (or destroying) social capital (Mohan/Mohan 2002:194-195). Another fundamental strand of critique dismisses social capital as cultural-deterministic and argue that trust in institutions is 'politically indigenous' – rather than being, in Putnam's terms, a "cultural legacy and a 'politically exogenous' feature of the social micro-structure" (Tatur 2004:30). In contrast to Putnam, Stark and Bruszt (1998:231, FN54) note that the relational aspects of asset interaction (between the different forms of capital) should be in the foreground and underpinning an analysis of network properties – rather than networks *as* properties.

The emphasis of the influence of social relations on economic life implies that markets are socially constructed and thus “economic behaviour is embedded in networks of interpersonal relations” (Amin 1999:336) which depend on “network properties, such as mutuality, trust and cooperation, or their opposite” (ibid:337). Research in network analysis assumes a relationship between the density, intensity and types (e.g. vertical and horizontal) of the coupling/decoupling of the network and their openness to the outside environment (Granovetter 2002:42-49). The ‘strengths of weak ties’ “seen as indispensable to individuals’ opportunities and to their integration into communities” (Granovetter 1973:1378), indirectly connecting relatively isolated groups of actors, become crucial for the adaptability of networks and for local or regional development because of their higher dynamic and their ability to ‘learn’ quickly. In contrast, ‘strong ties’, the resilient or multiple connections between actors, often with similar attitudes or moral values, can cause lock-ins or even hamper spatial-economic innovation processes.<sup>50</sup> Thus, the quality of networks and emerging social capital as resource must be optimised and not maximised, because it is “not just the density of associational life that matters for economic (or political) outcomes, but the structure of its ties” (Granovetter 2002:52). Spatial-economic processes imbued with social relations also have a complex continuously (de-)constructed cultural content, what has been theorised with the term of embeddedness (Sayer 1997:19-20).

The term embeddedness was first introduced by Karl Polanyi in “The Great Transformation” (1944) and has been used as a concept to challenge neo-classical assumptions of free and rational individuals acting as solely profit-seeking and markets as

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<sup>50</sup> Mohan and Mohan (2002:195) give some examples for ‘negative social capital’, or better strong ties such as organised crime in Italy – the Mafia. In Central and Eastern Europe, the notion ‘from plan to clan’ has suggested – here in the case of Ukraine – that “The old elite transformed itself into a monopolist/capitalist elite and became rent-seekers, relying on state financial support and privileges and devoting considerable effort to ‘lobbying’ the government for these privileges” (Šabić/Zimmer 2004:117). But whether financial-political groups – oligarchs and their networks with assumed strong ties – unequivocally hamper or help in the process of restructuring and reform is at least disputed (see Swain 2001 and informal conversation with Swain in Newcastle upon Tyne 14/15 February 2005).

the *only* institution establishing the social order.<sup>51</sup> By that notion he strengthens the early critique that economic thinking is highly ‘undersocialised’ and not capable of understanding economic processes. Instead, Polanyi suggests an ‘organic’ relationship between economic and social processes under specific historical arrangements (Peck 2004:8). Polanyi’s ‘organic rationalities’ (Glasman 1994:193) refer to the assertion that human rationalities are not taken-for-granted attributes of societies, but imposed on them with the establishment of the capitalist system (see Polanyi 1957 [1944], chap. 4). In his view, economic development can be regarded as a creative, undetermined, and unpredictable or cumulative process of the interplay of individual action, predominantly in the domains of labour, culture, and land distribution, whereby “The key factor of any transformation, the rate of change, is the outcome of the conflict between tradition and change” (Glasman 1994:197). Alongside formal institutions, informal institutions in form of conventions, or in his words, ‘routines’, embedded in all social organisation may also emerge from individual negotiations and dealings. Although embeddedness has allegedly not been properly defined and theorised - at least in geography (Martin/Sunley 2001:153) - it can be broadly understood as the social, cultural, and spatial dimensions, which underpin any economic relations.

Granovetter has taken up Polanyi’s work and developed it further. To avoid both, the ‘undersocialised’ (neo-)classical trap of an atomised rational individual and an ‘oversocialised’ mechanical view on the individual behaving according to normative rules, he uses a network concept of embeddedness, because

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<sup>51</sup> During the first transformation period in Central and Eastern Europe, Karl Polanyi’s work has experienced a revival, because “Then [19<sup>th</sup> century] and now we have to consider what happens when economic utopia [neo-liberalism] (...) and abstract model meet social reality and the need for social protection” (Bryant/Mokrzycki 1994:6). For Polanyi-inspired research on Poland see in the same volume Kowalik (1994) and Glasman (1994).

*"Actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy" (Granovetter 1985:487).*

His argument for embeddedness is that human behaviour and institutions are so constrained by ongoing social relations that any view of them as independent is seriously misleading (Granovetter 1985:481-482). Instead, "most behavior is closely embedded in networks of interpersonal relations" (Granovetter 1985:504) and this observation includes of course economic actions and markets, affected by actors' 'dyadic' (mutual) relations and by the structure of the overall network of relations – 'an anthropology of markets' (Callon 1998). Besides the behavioural assumption of the (neo-)classicists who believes that individuals who behave rationally "will survive, and those who do not, will fail" (North 1990:19) and Coase's bounded rationality as a cause of limited available information, a preference structure emerges which internalises social aspects and relations in economic actions. The methodological individualism, the fundamental axiom of neo-classicism, has thus been seriously contested, or at least expanded.

*"Economists trace economic behaviors to human instinct—to greed. Sociologists trace behavior to institutions, or conventions that constrain what we can do and what we can imagine doing; networks, or social groups and their roles in creating identities as well as behavioral norms and constraints; power, or the use of position and coercion to determine how people can behave and how they see their own interests; and cognition, or how people's perceptions of the world shape their behavior in it" (Dobbin 2001:4-5; original emphasis).<sup>52</sup>*

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<sup>52</sup> Dobbin (2001:5) stresses the relationship between formal and informal institutions, networks, power, and cognition. In his view, informal institutions provide models for economic behaviour while networks disseminate those conventions as well as networks function as power bases for transforming formal and informal institutions. This transformation process again shapes the cognitive orientations of individuals.

The concept of network has also been increasingly mobilised in the field of economic geography.<sup>53</sup> In the present era of the ‘network society’ and the ‘network enterprise’ (Castells 2000, 1996), in which innovation and technological developments are fundamental to the determination of economic growth, the concept of network is often praised as the ultimate treatment for lagging economic performance and regional competitiveness.

*“Networks constitute the new social morphology of our societies, and the diffusion of networking logic substantially modifies the operation and outcomes in processes of production, experience, power, and culture” (Castells 1996:469).*

Networks are key elements of fairy-tale like success stories of innovative and competitive regions such as Silicon Valley and other high-tech regions in Europe, Japan and the USA, although the hype of the ‘new economy’ in the 1990s has already vanished since the beginning of the new decade.<sup>54</sup> But the list of selective achievements in regional growth and prosperity is the reason why geographers and policy-makers still see networks as a success formula in the definition of intervention policy for local and regional economic development (see Kitson/Martin/Tyler 2004). Whether this approach provides a realistic incentive for growth, innovation and increased competitiveness, especially in economically ‘less-favoured’ regions or cities remains on the research agenda, particularly in the case of post-socialist territories (see Morgan/Nauwelaers 1999).

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<sup>53</sup> Grabher and Powell (2004) distinguish four types of networks: first, *informal networks* “based on shared experience, pre-existing social ties (...) that draws participants together” (Grabher/Powell 2004:xviii) and have a particular relevance in post-socialist settings; second, *project networks* with a higher level of hierarchies and co-ordination where complementary skills are assembled; third, *regional networks* producing ‘regional assets’ with the help of mutual trust, skills, reputation, facilitated by face-to-face contacts in social, economic, and political groups, regionally embedded; fourth, *business networks* covering interorganisational relationships which have a more formal, strategic, and centrally organised character and may be horizontal or vertical.

<sup>54</sup> A good part of the literature of the 1990s on regional development using institutional and evolutionary approaches reviews the same success stories (see e.g. Storper 1997; chap.6; Cooke/Morgan 1998; chap. 4-7). Nevertheless, Markusen states that “in most regional accounts, networks are presented generically and extolled without examining the motivations of participants, mapping who might be included and excluded, analysing unequal power relations among members or gauging the durability or fragility of relationships” (Markusen 1999:877-878).

The new economic sociology occasionally provides a more cartoon-like take on spatial settings, and has “yet to appreciate the significance of geographical context and spatial embeddedness, tending to reduce place and space to stylized or system-like characteristics, while paying practically no attention to uneven geographical development, place-making, or scalar constitution” (Peck 2004:28). But in contrast to orthodox and neo-liberal approaches, institutional, evolutionary and new sociological economics have the potential to bring localities into focus as sites of economic action (see Grabher/Stark 1998:66-68). These perspectives suggest that so-called globalisation does not equalise the properties of localities but makes them all more unique. The specific local knowledge, local culture, and local networks give shape to new and specific forms of economic specialisation which depend on the relational and continuously (de-)constructed social qualities of place and space.

## **2.3 The Institutional Turn in Economic Geography**

One of the most significant recent developments in economic geography is the analysis of contrasting local and regional trajectories which look behind conventional explanations of regional differentiation to issues such as informal institutions, learning, trust, networks, and historical path-dependency, which have an impact on locally embedded exchange relationships (see Amin/Thrift 1994; Scott 1998; Storper 1999 [1995]). In general, this trend can be exemplified by the emergence of a strand within the ‘new economic geography’ (NEG). The ‘cultural turn’ in geography has led to a new interest in agglomeration and social/cultural/geographical proximity effects on knowledge spillovers (see Perrons 2001; Boschma 2005).<sup>55</sup> The analysis of the behaviour of firms, the

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<sup>55</sup> For an overview of the debate on NEG see Antipode (2001) 33(2). In contrast to the more extreme notions of NEG as being ‘culturally over-killed’ on the one side (research focus on ‘the economy’) or as being ‘undersocialised’ on the other side (research focus on ‘culture’), the author takes the view of a relational perspective, similar to ongoing debates in the discipline, e.g. the relation between ‘nature’ and ‘society’, or

mechanisms of cumulative development, or the relevance of path dependencies are important tools for the explanation of the emergence of geographical clustering with economic activities. If physical proximity was in former times valued as a means for reducing costs (e.g. transport costs), today it is valued as a means for enhancing learning capacity, the reduction of uncertainty or the increase of trust through face-to-face interaction.

Storper (1999 [1995]:214) argues that there is an important association between social learning and spatial agglomeration, which has mainly two roots. First, localised economic input-output relations, or 'traded interdependencies' (the traditional focus of economic geographical analysis), and second, 'untraded interdependencies' between actors, which mediate processes of economic and organisational learning.

*"Where these I-O [input-output] relations or untraded interdependencies are localized, [which] is quite frequent in cases of technological or organizational dynamism, then we can say that the region is a key, necessary element in the 'supply architecture' for learning and innovation. It can now be seen that theoretical predictions that globalization means the end to economies of proximity have been exaggerated by many analysts because they have deduced them only from I-O analysis" (Storper 1999 [1995]:214).*

Storper argues that the analysis of complex social interrelations and processes of knowledge transfer between firms and agencies within regions is important in explaining the emergence of specific material and non-material regional assets and thus differences in economic performances (ibid:209). An important critique of this view within the research field of 'new regionalism' is that the focus on firms as the unit of analysis leads to analysis

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physical and human geography respectively (see Massey 1999 & 2001; Raper/Livingstone 2001). For a broader critique of 'radical geography' and post-modern approaches in cultural studies see Storper (2001). The 'Krugman strand' of the 'new geographical economics' (also labelled 'new trade theory'), a model-centred approach predicting, e.g. the ongoing specialisation of regions in Europe and a spatial-economic pattern more similar to the regions in the US due to increasing trade liberalisation, is neglected in this thesis, because "When it comes to complexly organized production systems and locational processes among highly developed countries, trade theory cannot be used to explain locational patterns and processes" (Storper 2000:147).



of spatial clusters or development within regions and not of the whole region (Perrons 2001). However, business enterprises play an important role in organising space/time in regional and local contexts so any neglect of such an analysis would “belittle the profound influences which enterprises transmit through their networks of intra- and inter-firm transactional relationships” (Dicken/Thrift 1992:288).

It has also been argued that the ‘new regionalism’ limits the significance of overriding institutional contexts (e.g. macroeconomic regulation, welfare regimes) which shape the way global processes take different forms in different geographical locations (Lovering 1999:385-387). However, more traditional approaches to identifying long-term regularities in the development of regions and their geographical ‘patterns’ or ‘cycles’ frequently generated little more than descriptive models (e.g. the rank-size rule, Christaller’s central place theory, Löschian market geography) with geo-deterministic notions: “they describe uneven patterns of growth and decline as normal and allow us to prepare ourselves for the inevitable” (Storper 1997:59). In the case of economic transformation in Central and East Europe there is a particular danger of developing a narrative of evolutionary and geo-determined ‘backwardness’, in contrast to western ‘modernity’ and progress (Wydra 2000:84).

### 2.3.1 The Analytical Framework: Storper's Holy Trinity

The emergence of the ‘heterodox paradigm’ which breaks economic development in regions, nations, and on a global level into a series of empirical and theoretical dimensions with the aim of formulating a problem-oriented multi-level explanation for growth and decline has found its most complete articulation in Michael Storper’s ontology of the ‘holy

trinity' – elaborated in "The Regional World" (1997).<sup>56</sup> Storper's work offers an analytical framework for conceptualising spatial-economic change and the heterogeneous structure of labour and capital as well as avoiding the perception of technology as a black box. He applies most of the theoretical attempts discussed earlier with the aim of constructing an integrated theory of economic space focused on the interrelations between organisational (firm-related), technological, and geographical spaces. In this context, Scott and Storper (1992) identify three interdependent dimensions of industrialisation and regional development.

The first is a necessary institutional context, involving the organisational logic of production, the nature of the firm, as well as markets and hierarchies co-ordinating production systems and labour markets. Markets, technologies and the organisation of production are perceived as interdependent systems embedded in 'durable' institutional contexts. The second focuses on the evolutionary dynamics of industrialisation and regional development (Storper 1997:61-65). This dimension sets out the development of technologies, markets and institutions as 'pathways'

*"whose historical trajectory is governed by the complex interplay between prevailing rules of social order, and (...) the experimental character of much economic behavior in the context of prior states of the system"*  
(Scott/Storper 1992:4).

The third dimension confirms that institutional contexts and evolutionary pathways are locally bounded, have geographical foundations, and thus a territorial specificity. Moreover, the central argument is that in the evolution of capitalism, territory plays a role as important as technological change and firm or labour behaviour. Storper asserts that

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<sup>56</sup> It is widely accepted that the 'heterodox turn' starts with Massey's "Spatial Divisions of Labour" (Massey 1984). While this seminal work attempts to understand the de-industrialisation of old industrialised areas, curiously enough, the research agenda that has followed has generally focussed on the analysis of high-tech industries (Storper 1997:26-27).

territory matters because locally embedded human relationships are fundamental to creating a stock of relational assets that are essential to acquire and using knowledge (Storper 1997:170).

The interest in regional economics reflects the growing importance of regional economies as fundamental units of the world economy. The argument is that dynamic regional economies, and cities, can not be understood through mechanical analogies (e.g. the city as a 'machine') but should be reconceived as stocks of relational assets (Storper 1997:244-252). These relational assets also support the building and maintaining of organisations that are capable of learning, thus creating and using technology productively. These factors are critical for a firm (or region) to adjust to increasing uncertainty in product markets and to continuously create and recreate imperfect competition and economic differentiation. The stock of relational assets, the endogenous regional capacities, is defined as the set of historically developed interdependencies among actors, organisations (firms) and formal/informal institutions.

Contemporary regional specificity lies in actors' knowledges and cognitive skills. The reason for this, according to Storper (1997:29), is that there has been "an enormous leap in economic reflexivity" which refers to the ability of groups of actors to shape the course of economic evolution by taking a critical distance from their activities and constructing interpretations which become real through their actions. However, this new reflexivity also produces new risks for other actors. In the context of uncertainty, effective economic action depends on conventions which are routines, practices and taken-for-granted assumptions which co-ordinate action (Storper 1997:30).

While some of Storper's earlier works draws from a Marxist informed development theory, world systems analysis and regulation theory (see Storper/Walker 1989:6-35), he later

argues that many approaches trying to understand contemporary reflexive capitalism and competitiveness have struggled and only produced

*“descriptive monikers for the new economy: postindustrialism, the information economy, flexible specialisation, and post-Fordism. Though each of these labels helps in understanding some dimensions of contemporary economic activity, the logic of the most advanced forms of economic competition (...) can best be described as that of learning” (Storper 1997:265).*

The learning economy is, in Storper’s view, an ensemble of competitive possibilities, reflexive in nature, influenced by capitalism’s new ‘meta-capacities’: the technological revolution in production, information and communication; the spatial extension and social deepening of market relations and new organisational methods (ibid:30-31). Those spatial-economic entities that can learn faster or better become competitive because their knowledge is scarce or uncodified and thus cannot be immediately copied by competitor firms, regions or nations. But local or regional competitiveness is only temporarily immune to relocation: economies have to be prepared for the global forces of standardisation and imitation by a continuous process of learning. In a climate of increasing globalisation, the turn towards neo-liberal forms of regulation has exposed regions to increased competitive pressures. Thus, the analytical focus lies on how individual and collective reflexivity operates in the current learning economy through “cognitive, dialogic and interpretative processes with the substantive goal of understanding how *relations of co-ordination* between reflexive agents and organizations are established” (Storper 1997:31; original emphasis).

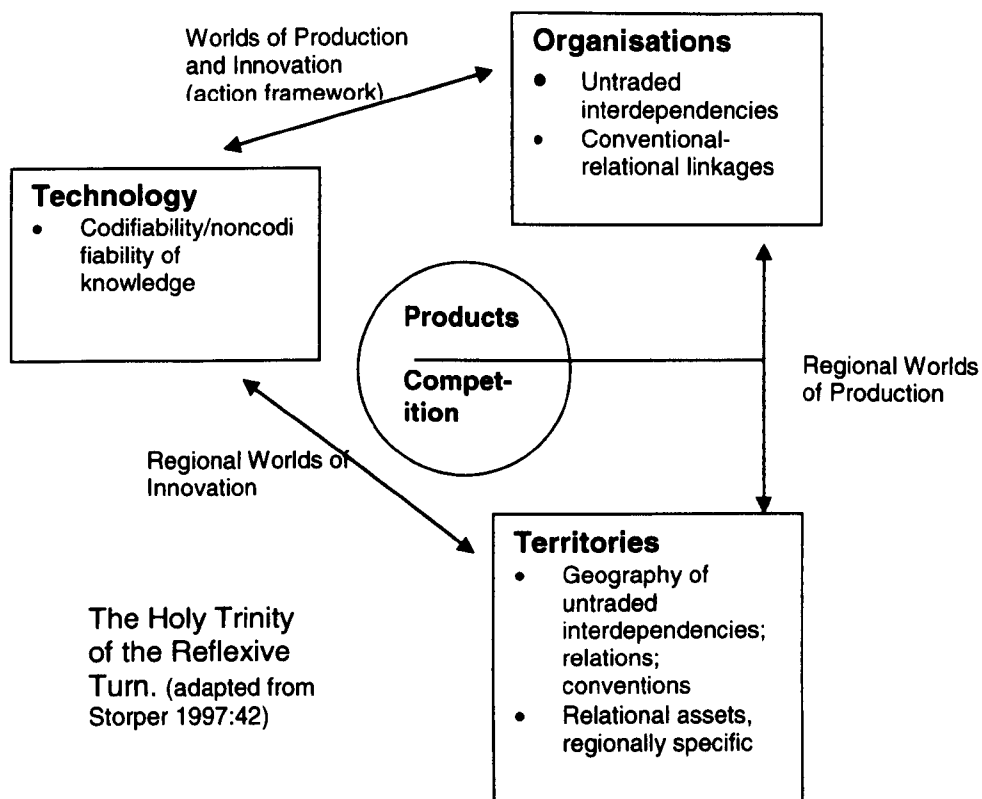
Storper criticises the industrial districts literature and transaction cost theory for being unable to distinguish between dynamic, technologically innovative regional economies and undynamic agglomerations (Storper 1997:7-8). He prefers an interactive ‘holy trinity’ of technologies, organisations and territories, which produces a path dependent process of

regional development and, in places, yields coherent *regional worlds of production* which act as innovational learning economies. The interactions mean that regional economies are likely to have unpredictable and characteristic development trajectories. The concept envisages the product as lying at the core of this trinity, and the variety of possible products means that regional worlds of production will have different conventions and relations. In contrast to previous attempts to conceptualise economies of space he demands the analytical integration of untraded interdependencies, their conventional and relational qualities and the way in which these conventions and relations might organise traded transactions.

Storper aims to analyse the interrelated ‘worlds’ organised around the competition over products and between organisations, technology and territory. This combines the *worlds of production and innovation* (between organisations and technology), the *regional worlds of innovation* (between technology and territories) and the *regional worlds of production* (between organisations and territories) (Storper 1997:50-51).

*“When all the elements of the holy trinity are considered equally and simultaneously, there is no theoretical ‘bracketing’ for the purpose of simplification. As a result, only the most complex and concrete problems of economic development can be considered. But we can build up to them using insights gained through rigorous theorizing of the individual elements of the trinity (...)” (Storper 1997:51).*

**Figure 1: The Holy Trinity**



The *worlds of production and innovation* incorporate the relationships of one of the principal motors of changing territorial patterns (technology) with organisations (firms). This sub-world conceptualises the conditions of the rise and fall of new products with a definition of physical and intellectual possibilities on the one side (technology) and the institutional possibilities for an economic implementation in a feasible manner (organisations). The *regional worlds of innovation* point to the relationship and conditions of innovation (technology) and its spatial-economic diffusion (territory). This geography of innovation is shaped by collective private and public co-ordination which depends highly on the specific locality and its capacity to organise the localisation of knowledge and learning. The *regional worlds of production* acknowledge that organisations shape space through their locational behaviour, but in turn, that organisations get also shaped by territorial institutions. What emerges is a localised relational and conventional environment of untraded interdependencies.

Storper's *world of production* suggests certain sets of conventions which provide a framework of action – for each basic kind of a product. From this perspective, products are either supplied *standardised* or *specialised* and demanded as *generic* or *dedicated* products respectively. As a consequence, the *world of production* consists of four different worlds which demand certain frameworks of action and underlying conventions, if these worlds want to draw from their innovative capacities.

So, first, *specialised-dedicated products* are 'personalised' (dedicated) products oriented on a particular (often niche) demand, whereby the qualities are defined by the needs of a particular client. The development of new technologies and know-how is restricted to a community of specialists with rare and costly knowledge, thus "innovation must consist of inventing new dedicated qualities requiring specialized resources" (Storper 1997:116). Second, *standardised-dedicated products* (of what Storper calls the Market World) draw from the advantage of codifiable ('cosmopolitan') information and combinations of already standardised products, whereby the outcome is oriented on quickly changing markets and their (dedicated) demand. Thus, "innovation in this world consists of inventing new dedicated qualities that are amenable to standardization" (ibid.). Third, *specialised-generic products* of the World of Intellectual Resources can be sold directly on the market in an 'anonymous' way (generic), because their production processes are well known. The technological input draws from widely known knowledge, but products cannot be produced by standardised methods, hence they are specialised. In this world, innovation is reached by developing "new generic qualities via the exercise of specialised capabilities" (ibid.). Fourth, in the Industrial World, *standardised-generic products* which draw their technological input from codifiable (cosmopolitan) knowledge are produced with widely diffused standards of quality and client expectations for a mass market. Innovation can be generated by "inventing new generic product qualities amenable to standardization" (ibid.).

### 2.3.2 Short Critique of the Holy Trinity

Storper's assumptions and empirical work are mainly based on western experiences of new industrial districts (Storper 1997; chap. 6). But the claim of a new heterodox paradigm in economic geography is only justified if this approach is capable of explaining and understanding spatial-economic transformation in a broad range of regional worlds, including old industrial and/or post-socialist settings. Certainly, the configuration of the 'Upper Silesian trinity' might look different to the glittering blue-chip interfirm relations of California or the highly flexible niche production of *haute couture* in Île-de-France. But the question is whether the ontological assumptions developed in regional economic development studies in western Europe and north America since the early 1980s are *a priori* transferable to transformation economies with emerging new institutions and 'non-western histories', providing evidence of what Hart calls the multilinearity of capitalist development (Hart 1998:337).

While many aspects of the holy trinity spin around the question how regions can conserve or enhance their competitiveness with a constant process of learning in times of a deepening global economy, it is at least questionable whether this focus is applicable in post-socialist areas, where both old state-owned and newly established private firms, are fighting for bare survival in times of restructuring or deepening recession. Thus, many of Storper's guiding questions and terms may have to be adapted or translated into post-socialist realities. Storper criticises the way in which institutionalist research is reproducing 'state *versus* markets' dichotomies with the remark:

*"The ideological content of these theoretical disputes should no longer blind us to the new historical reality; in many ways, markets were once opposed to states, rules, and other institutions, but this is not longer largely the case" (Storper 1997:29-30).*



However, the complex transformation of former socialist economies into capitalist ones, the ‘protraction’ of privatisations in old economic sectors, is exactly what can be called a free(d)-market-versus-state-case and becomes tangible in the face of distinct resistance against the severe social and economic impacts of economic transformation and applied neo-liberal shock therapies (Stark/Bruszt 1998:109-112).

Storper’s emphasis on reflexivity, and the ‘loose constraints’ on economic actors incorporates a strange silence on the uneven power of, and distributional conflicts between, economic actors, which affect all regional trajectories:

*“(…) the spatial as the sphere of juxtaposition, or the co-existence, of different narratives, as the product of power-filled social relations; it would be a view of space which tries to emphasise both its social construction and its necessarily power-filled nature” (Massey 1999a:21-22).*

Applying the trinity, the integration of locally and regionally embedded power relations seems to be crucial in understanding spatial-economic transformation, especially in an era of neo-liberal discourse. Thus, the relational approach, the focus on reflexive actors should be expanded to the understanding how these relationships are shaped through the unequal distribution of power. As networks of economic actors indicate reciprocity of social relations through the generation of dyadic trust, they are also realms of resource dependence and different modes of power relations. From this perspective, the specificity of the post-socialist transformation process is likely to produce considerably different balances between the main parts of the trinity than in other parts of the world.

It is hard to see where conventions actually start and stop. As all economic activity, including ‘hard’ market transactions, involves relational conventions of some sort, further research needs to explain why specific mixes of regional conventions are successful and

others not. Moreover, it is not only necessary to analyse the ways in which these conventions or other informal institutions constitute economic relations and action, but also to explore where they come from and how they developed. Despite the notion “that conventions are best understood in terms of how they render accessible or deny access to different kinds of action” (Storper 1997:45), little is said about the fact that conventions are constantly shaped by action and change over time. This is particularly relevant to societies in transformation, the emergence of new capitalist economies.

Storper starts from the notion that regional economies are based on formal (official) economic and social relationships. The holy trinity is an analytical framework, which assumes differentiated actors in political and economic spheres. A problem occurs when a regional economy might instead be based on informal economic relationships, such as the emergence of mafia-like clans who represent both local/regional political *and* economic power. The argument that there has been a shift ‘from plan to clan’ in former socialist societies has implications that might play an important role in a ‘post-socialist trinity’, for example, in the existence of shadow markets or informal non-monetary exchange relationships. It is not enough to say that these kind of unofficial economic activities and their networks are difficult to analyse (in fact to uncover). If they exist, it is necessary to assume that official and unofficial regional trinities are interwoven and interdependent, thus not separable within an analysis.

### 3 Becoming a Post-Socialist Space

The collapse of the socialist regimes in Central and Eastern Europe in 1989/1991 was first of all marked in the streets of the cities, giving rare historical evidence for overcoming human passivity and rebellion against the state institutions and its monuments (Lefebvre 2003 [1970]). Indeed, the cities and their inhabitants were the initiators of the political, economic, and social changes that followed. In the process of ‘becoming post-socialist’, the most radical changes were first felt in bigger cities, dependent on their economic, financial, administrative, and cultural status (Kiss 2002:70). They were increasingly exposed to and involved in the global economy and other externally induced processes, making them at the same time “the location through which change is mediated” (Kostinskiy 2001:451). Yet, the suggested transformation of the ‘socialist city’ to the ‘post-socialist city’ is not a linear process that started in the year of 1989.<sup>57</sup> On the contrary, the contemporary shape of many post-socialist cities is the result of pre-transformation period and also pre-socialist structures, physically, and, more crucially, in institutional terms. This chapter focuses on the most important issues in ‘becoming a post-socialist space’ and sets out to integrate institutional and evolutionary work on post-socialism with Storper’s suggestion of the reflexive turn in economic geography in general and his analytical framework of the trinity organisations-technology-territory in particular. The chapter ends with a preliminary account of the socialist and post-socialist city and the relationship between them.

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<sup>57</sup> The author is aware that the differentiation between ‘socialist’ and ‘post-socialist’ (defined by the year 1989 as the watershed between these two concepts) might be questionable and thus has to be seen as a (preliminary) framework for analysing urban institutional changes and the pathways of economic transformation. For example, ‘socialist’ elements survive in ‘post-socialist’ times and ‘capitalist’ modes of production were introduced in some former socialist countries before 1989.

### 3.1 Conceptualising Post-Socialist Places and Spaces

The most far reaching attempts to theorise economic and social transformation in post-socialist countries do not explicitly focus on place and space. However, this development in academic production is apparently not the fault of ‘post-socialist studies’ itself, but, rather, a reflection of “the loss of the urban as both a subject and object of study” (Lees 2002:102), because urban geography “is seemingly not seen to be at the forefront of innovative work in the discipline any more” (ibid.). This pessimistic view reflects a general trend of uneasiness in contemporary work on urban theories, because they are predominantly occupied with a focus on ‘world’ and ‘global’ cities, concepts which are unhelpful in explaining or understanding what happens in the ‘ordinary’ cities of the rest of the world (Amin/Graham 1997). As Robinson suggests, “There are a large number of cities around the world which do not register on intellectual maps that chart the rise and fall of global and world cities. They don’t fall into either of these categories, and they probably never will (...)” (Robinson 2002:531).

Robinson’s unease with the obsessive categorisation of cities into hierarchical urban networks on the one side and the omission of ‘ordinary’ cities on the other side, which do not fit into analytical frameworks, is also justified when looking at current accounts of post-socialist cities. The focus has been on the capital cities of Europe, but what happens in the second, third, fourth, and fifth biggest cities of these countries, which do not appear on the maps of post-socialist transformation?<sup>58</sup> Additionally, most of the urban research in Central and Eastern Europe is still concentrated on descriptive analysis of spatial

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<sup>58</sup> Certainly, the research focus on capital cities can be explained with high(er) dynamics and thus interesting developments triggered by the political-economic transformation after 1989 and the linked symbolic re-definition in the course of neo-liberal policies and re-integration into world capitalism (see e.g. Brade/Rudolph 2004; Regulska 2000; Cochrane/Jonas 1999; Dingsdale 1999; Sykora 1999 Surazska 1996). Additionally, it can be argued, that the western academic knowledge gap regarding urban development in (post-)socialist countries makes it somehow necessary to look first at what happens in the capitals before starting to analyse and understand the processes of other cities. Only recently, this gap in the research programme has begun to be filled, with, for example, notable research on the cities of Nowa Huta/Kraków and Novosibirsk by Stenning (1999; 2000; 2003), and with (comparative) research on Manchester and Łódź by Young/Kaczmarek (1999) and Liszewski/Young (eds., 1997), although the latter authors tend to reproduce the spatial organisation approach of the 1970s and 1980s.

organisation and its change, such as the transformation of city centres or suburbs, or the emergence of new retail or housing (see e.g. Wolaniuk 1997; Sailer-Fliege 1999; Duke 1999; Tasan 1999).

However, in regional studies, by contrast, institutional economic and political change has been emphasised in developing a conception of post-socialist spaces. Here, the focus is on the formation of traded and untraded interdependencies, the evolution of learning regions and their political-economic networks. From this perspective, the emergence of the ‘new Europe’ has been on the agenda in the course of the privatisation process of former state-owned assets, inward investments, or emerging supply chains and their impact on regional development (Smith 1994; Pavlinek/Smith 1998; Pavlinek 1998; 2004; Dornisch 1999; 2002; Hudson 2002a). Drawing on the evolutionary concept of path dependency and bricolage, the following paragraph sees to substantiate the emergence of post-socialist spaces.

### 3.1.1 Spatial Path Dependency and Bricolage

Smith and Pickles suggest that the spatial transformation in emerging capitalist economies “is both evolutionary and path-dependent in the sense that it is based upon institutionalised forms of learning as well as struggles over pathways that emerge out of the intersection of old and new” (Smith/Pickles 1998:13). In doing so, they draw from evolutionary and institutional political economy and the observation that

*“(...) post-socialist trajectories are heavily dependent on a dense and complex institutional legacy such as the (often invisible) remnants of previous economic and political orders still shape expectations and patterns of conduct (...) [S]ocietal innovation depends heavily on recombining old elements as much as, if not more than, it does on introducing wholly new social forms (Nielsen/Jessop/Hausner 1995:4).*

Opposing the ‘myth of designer capitalism’, Stark (1992; 1995), one of the most influential proponents of path-dependent analysis, emphasises the continuities between state socialism and its capitalist successor.<sup>59</sup> Stark’s central idea is that social-economic structures and networks can be reproduced because these assets are not system-specific, so that, “It is in the ruins that these societies will find the materials with which to build a new order; therefore, differences in how the pieces fell apart will have consequences for how political and economic institutions can be reconstructed in the current period” (Stark 1992:20). This perspective acknowledges the differences in resource distribution between socialism and capitalism, but argues that in terms of stratification and power structures, the continuities are often greater than the changes. For example, the emergence of new ownership structures in the course of privatisation by the division of former state-owned large enterprises may be devices to maintain existing power structures in the position of industrial managers, who capitalise on their network properties and “might be able to utilize positional resources to gain effective ownership rights” (Stark/Bruszt 1998:87). In short, asset conversion enables well-placed actors under one accumulation system to retain their position under another, which is why the mode of privatisation – seen as a path-dependent process – is crucial for post-socialist analysis (Poznanski 1996:223).<sup>60</sup> For Stark, path-dependent analysis is a “method for grasping the recombinant character of social innovation” (Stark/Bruszt 2001:1133), a process which might result in a new type of mixed economy as a distinctively Central and East European capitalism.

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<sup>59</sup> The early debates of the 1990s revolved around the concerns of an ‘institutional vacuum’ after the fall of state socialism, which made economists and political scientists likewise demand quick ‘system change’ and shock therapy, an assessment which has been opposed by evolutionary thinkers such as Stark, who argues that institutional legacies not only continue to unfold in capitalism but that the “paths of extrication from state socialism shape the possibilities of transformation” (Stark 1995:71).

<sup>60</sup> In order to avoid both the Marxist critique of ‘from plan to clan’ and the neo-liberal narrative of ‘from plan to market’, Stark and Bruszt instead suggest a more sober analysis in asking “Will the informal networks that got the job done despite institutional barriers in the earlier socialist system promote economic restructuring or will they inhibit it?” (Stark/Bruszt 1998:79). In their seminal work “Postsocialist Pathways” (1998), Stark and Bruszt suggest four independent dimensions in analysing privatisation: first, foreign versus domestic ownership structures; second, spontaneous versus privatisation controlled by state agencies; third, institutional versus ‘natural’ ownership; and fourth, concentrated versus dispersed ownership (Stark/Bruszt 1998:53).

The idea of recombination can be defined as “innovative adaptations that combine seemingly discrepant elements” (Stark/Bruszt 1998:103), a process which might also be labelled *bricolage*.<sup>61</sup> The re-assembly of old and new formal and informal institutions such as organisational forms, concepts, networks, routines, or other socially constructed features guiding economic and political behaviour has the aim of finding solutions in uncertain transformation periods. Campbell suggests that “the concept of *bricolage* captures how institution building is a process of *dynamic innovation* whereas the concept of institution building with historical legacies alludes more to a process of *mechanical imitation*, although the two are not necessarily incompatible” (Campbell 1997:22; original emphasis). In this perspective, social change is interpreted as a recombination of existing resources into new combinations.<sup>62</sup> The idea of “playing capitalism with noncapitalist pieces” (Stark/Bruszt 2001:1129) is an alternative to the mainstream suggestion that the collapse of state socialism left a *tabula rasa*, or vacuum in which new institutions, formal and informal likewise, could be built up from scratch.

As the evolutionary concepts of path-dependency and *bricolage* have a more distinct attitude towards time, it is necessary to ask how these conceptions could be integrated in a wider approach to theorise space/time in economic change. This can be reached in identifying industrial networks and their vertical and horizontal relationships as crucial features for setting the space/time framework of economic change. While economic actors and networks handle the uncertainties of transformation and new forms of exchange by

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<sup>61</sup> Deriving from French, the term *bricolage* can be translated as ‘improvised patch-work’, usually undertaken by a *bricoleur*, a casual labourer or DIYer. In social sciences, the term was introduced by Levi-Strauss (1966 [1962]) who contrasted the ‘wild’ forms of thoughts during the Neolithic age with that in sciences of the modern times. Levi-Strauss interprets Neolithic *bricolage* “as an attempt to make sense of the world as a whole by blending together whatever is available into a complete story, whereas the scientist is more restricted in what can and cannot currently be claimed as knowledge” (Hammersley 2003:575).

<sup>62</sup> With a case study in financial economics, MacKenzie notes that the process of *bricolage* follows neither rules nor a set methodology, but performs in a creatively ad hoc fashion (MacKenzie 2003:856). In analysing the Danish wind turbine industry and their technological innovations, Garud and Karnøe note that the process of *bricolage* involves relational and spatial characteristics, because “It is a process of moving ahead on the basis of inputs of actors who possess local knowledge, but through their interactions, are able to gradually transform emerging paths to higher degrees of functionality” (Garud/Karnøe 2003:296).

maintaining, recombining and developing relationships built on trust, learning and mutual interests, the ‘carriers of history’ in the process of path-dependency obey at least two interlinked sets of rules of undividable space-time.<sup>63</sup> The past is perceived as a set of possibilities, whereby the present controls what possibility is to be dealt with (Håkansson/Lundgren 1997:124), and second, in terms of spatiality, it can be argued that the simultaneous coexistence of inter-relational activities, resources, and actors set the rules for treading new paths, because “The ties, links and bonds existing between these three categories give obvious ‘path dependence’ features carrying history, containing technological, economic, social and knowledge barriers to exploiting new avenues” (ibid:132). As sites of complex (and messy) institutional change and learning across different social logics, routines and practices, post-socialist localities offer an excellent context to study the transformation not only of business firms, but the overall political and economic process of recombined traded and untraded interdependencies in an urban or regional environment of reflexivity and multiplicity.

### 3.1.2 Local Reflexivity and the Distanced Urban Economy

As stated above, world and global city approaches might only offer a limited access to understanding *internal* urban economic transformations in post-socialist countries.<sup>64</sup> It has been contended that these approaches are predisposed to be too hierarchical and mechanical (Storper 1997:223) and only replicate exclusionary dualisms which are not

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<sup>63</sup> In institutionalist and evolutionary perspective, the carriers of history are interpreted as the change of formal and informal institutions and technological innovations. In a more specific account, Håkansson and Lundgren additionally identify sources of feedback and reinforcement in this process, such as economies of scale, learning, technological interrelatedness and network externalities (Håkansson/Lundgren 1997:124).

<sup>64</sup> It can be argued, of course, that the world city approach might be applied to explain how cities of the post-socialist world find their way within a global city system, thus focusing on the global capacities of cities, defined as concentrations of expertise and knowledge (Beaverstock/Taylor/Smith 1999: 446). However, the approach of measuring world cities with the help of simple in-out ratios describing the relations among them and emerging city networks do not question “the fundamental contradiction that the theories they follow were never designed to take the idea of networks seriously” (Smith, Richard G. 2003:575).



perceived as helpful in understanding the nature of cities (Amin/Thrift 2002:51).<sup>65</sup> Moreover, none of these approaches – including the accounts of the post-Fordist and informational city - put current economic phenomena together “in a way that effectively accounts for what it is about them that might drive the degree or nature of urbanization today” (Storper 1997:244).

In order to avoid the narratives of urban and spatial theory since the late 19<sup>th</sup> century, which framed urban economies in points, lines and boundaries, Amin and Thrift suggest an “understanding of cities as sites in spatially stretched economic relations” (Amin/Thrift 2002:63). Despite the reservations of presenting cities as adventurous in terms of local reflexivity and geographical or social proximity, the following paragraph tries to emphasize the complementary nature of both attempts – Storper’s city reflexivity and Amin and Thrift’s ‘distanced’ city.

Storper provides insights into the nature of firm strategies. He argues that the global fixation of organisations on regulation and flexibility of investment is only addressing part of the issue, because “These external economies are not simply economic in nature; they are to an important degree, territorial” (Storper 1997:295). From his perspective, capital accumulation still requires more than easy ‘entry and exit’ regimes that set up a global ‘locational tournament’ among countries. What these strategies largely ignore (and often erode), are the same proximity effects and territorially based networks and relations that lead to optimal resource use and profitability. The solution, Storper argues, is to expand the reform agenda to develop also “the bases of conventions and relations of learning in regions and firms” (Storper 1997:300), to foster, what he terms, territoriality based relational assets of regions and firms. In other words, effective long term strategies for

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<sup>65</sup> Amin and Thrift give three examples of unhelpful dualisms in contemporary urban theory: first, the world perceived as a space of flows versus the urban as a space of fixity; second, the global as remote space versus the local as localised proximate; and third, small face-to-face versus a distanced large (Amin/Thrift 2002:51).

regional development will only be successful if they are based on an understanding that “what firms do is inherently tied up with what regions do, and vice-versa” (ibid:299).

In embedding the notion of reflexivity into an understanding of the nature of urban economics, Storper offers a more generalised account of cities which focuses on the economic creativity of agglomerations. In his account of the ‘reflexive city’ he suggests that

*“The economies of big cities (...) should be analysed as sets of partially overlapping spheres of reflexive economic action, and the structures of those activities, in addition to traditional economic descriptors, must include their conventional and relational structures of coordination and coherence” (Storper 1997:245).*

Storper stresses the need for proximity in economic interactions and competitiveness, as important to stabilise relations of trust between (and within) organisations and individuals and thus helping to reduce transaction costs. The city is seen as a matrix for such reflexivities, where tacit knowledge and untraded interdependencies can unfold in economic life. Storper suggests that:

*Important and distinctive dimensions of this reflexivity, in both production and consumption, in manufacturing as well as in services, take place in cities; they are dependent on the concrete relations between persons and organizations that are formed in cities; and they are coordinated by conventions that have specifically urban dimensions and in addition are often different from one city to another” (Storper 1997:222).*

However, Amin and Thrift dismiss the common assumption that agglomeration advantages such as proximity and density generate specific economic effects. Instead, they plead for an understanding of economic organisation as distanced with the request “to interpret the economic significance of cities in institutional terms (...) through the routinization of ‘site

practices' (...) and the density of informal institutions (...)” (Amin/Thrift 2002:52). In this account of the city, proximity advantages such as personal face-to-face contacts, local transactions or shared knowledge do not have a primary importance for doing business in the knowledge economy (ibid:60). Amin and Thrift provide three interrelated reasons for this argument. First, managers of knowledge industries do not rely on local (tacit) knowledge *alone*, while tacit and explicit knowledge cannot be separated from each other (see also chapter 2.2.1). Thus, “constellations of distributed know-how and reflexivity within communities of practice [operate] at different spatial scales” (ibid:61) and third, the local usage of tacit conventions in ‘circular networks’ is rather an organisational endowment than a place or space asset (ibid:62).<sup>66</sup> However, the authors suggest two important exemptions - first, the case of small and medium-sized companies (SMEs), which still rely on localised informal institutions in order to survive (ibid:76) and second, the case of ‘unique’ localities where industry and society coincide, such as heavy industrial areas (ibid:62).

Instead of seeing a contradiction between Storper’s and Amin/Thrift’s account of urban economies, it is suggested that it is possible to understand the city as *both* localised *and* distanciated. While this combined approach can hardly be named innovative, the question emerges in which cases ‘the local’ still holds important assets, which go beyond Amin and Thrift’s suggestion of the remaining ‘petty institutions’ of cities perceived as “not central for core business activity, but advantageous for tracking opportunity (...) [and] relay points for dispersed network spaces, not sites of economic containment” (Amin/Thrift 2002:72). With the aim of embedding the notion of the reflexive and distanced city in the post-

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<sup>66</sup> Amin and Thrift draw their conclusions from three examples how distanciated networks of economic organisation materialise: first, the case of transnational corporations, seen as ‘circulatory networks’ with “no distinctive pattern of spatial connections” and thus no “territorial integrity for cities in this context” (Amin/Thrift 2002:65); second, the case of advertising and creative industries and their changing project teams which have “little to do with the economics of agglomeration and local association” (ibid:66); third, the case of telematics which produces a “new form of space-time”, which “enables economic transactions and routines to be spatially and temporally stretched, so that proximate actors are no longer reliant on economic relationships with each other” (ibid:66+67).

socialist context and bearing evolutionary understandings of path-dependency and bricolage in mind, the following implications are suggested for post-socialist spaces and places.

First, social and economic change can be described as a re-assembly of existing resources with new combinations, but these combinations do not draw from an optional menu of creative possibilities (as Storper might imply), but are heavily dependent on surviving modes of power relations inherited from socialist legacies.

Second, Storper's 'overlapping spheres of reflexive economic action' are fundamentally limited to a specific network of actors, which might partly try to exclude emerging possible entrants. The implementation of innovative regional or urban processes might therefore be blocked.

Third, in addition to Storper's and Stark's evolutionary, sometimes biologicistic notions which suggest that innovational processes can be implemented by 'organising diversity', the political economy approach still plays a significant role in understanding transformations, especially in CEE as a neo-liberal laboratory. The influx of FDIs and the emergence of global players are important aspects of emerging capitalist spaces.

Fourth, the analysis of holy trinities in post-socialist settings should emphasise processes of privatisation, the transfer of state-owned assets into private ownership and combined forms of properties. These recombinations, not only in terms of assets, but also in terms of re-combinant (or re-cycled) economic and political networks and their informal set of institutions have the potential to inform different modes of power relations within the different sub-worlds of the trinity.

Fifth, post-socialist spaces are both, localised and distanced, but it is important to identify the economic and social contexts in which geographical, social and cultural proximity matter and equally the ways in which distanced relations and their set of informal institutions shape transformation processes.

Sixth, the constitution of new forms of self-governance and the emergence of newly articulated regional identities clearly play an important role in economic and social transformation in post-socialist countries. The political-economic representation of these identities as well as an identification of certain routines associated with them, interpreted as untraded interdependencies, should be integrated in the analysis of the trinity. The next section makes first suggestions on ways of rethinking the (post-)socialist city in terms of institutional change.

### **3.2 From the Socialist to the Post-Socialist City**

French and Hamilton some time ago asked the basic question “whether or not the socialist city is fundamentally different from the city in (...) capitalist societies” (French/Hamilton 1979:3).<sup>67</sup> Meanwhile, at least in Europe the differences are not seen as *fundamental*, because “They share much of the same historical and physical legacy, and are subject to the same forces of modern industrial society” (Smith, D.M. 1996:73). While there is no doubt that differences in the urban fabric do exist, the early western debate about the nature of the socialist (or socialised) city has been predominantly occupied with the spatial organisation of the city and linked questions of planning, urbanisation processes,

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<sup>67</sup> A year earlier, Friedrichs edited a comprehensive study in German, comparing the cities of London, Hamburg, East Berlin, Warsaw, and Moscow with the aim of identifying similarities and differences in urban development between capitalist and socialist countries (Friedrichs 1978:8).

functional structures, mobility or socio-economic segregation (see also Musil 1980; Szelenyi 1983; Turnock 1989, chap.5; Ruoppila 2004).<sup>68</sup>

In some respects, the early debate on the characteristics of the socialist city has seen a revival of urban geography by suggesting the emergence of the 'post-socialist city' after the fall of centrally planned economies not only in Central and Eastern Europe (Kovács 1999; Scarpaci 2000). It can be claimed that the alleged (post-)socialist city has only been vaguely theorised, in particular regarding the spatial nature of institutional change and economic transformation. Moreover, the efforts to integrate the post-socialist city into extensive discussions in urban theory are rare or insufficient.

### 3.2.1 The Socialist City

The debates over the socialist city in terms of its spatial organisation can be regarded as settled. Drawing from neo-Weberian theory and analysing the socialist capitals of Hungary, Czechoslovakia, and Poland, Szelenyi (1996) summarises the debate of the 1970s and 80s in suggesting three main characteristics of the socialist in contrast to the capitalist city. First, the socialist economic regime eliminated private property and redistributed resources in particular to the heavy industries. As a consequence of extensive industrialisation and austerity on non-productive infrastructure socialist cities tend to be '*under-urbanised*' which "means that under this pattern of industrialization and urbanization, the growth of the urban population falls behind the growth of urban industrial and tertiary sector jobs" (Szelenyi 1996:295). As a result, socialist cities have significantly smaller and less dense populations than capitalist cities. Second, socialist cities produce

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<sup>68</sup> One reason for this theoretically limited research programme might be a general tendency in western urban studies (at that time), focusing rather on the built environment, and reproducing "attempts to pull out certain elements of cities as primary forces, with the result that they freeze cities in place" (Amin/Thrift 2002:3). Another reason for the descriptive western approach to the socialist city may have been the view that there were (spatial) planning lessons to be learned from it. In other words, "Socialism (...) gave rise to the expectation of a different kind of city from those of the Anglo-American textbooks (...) and city planning was viewed as an important means of achieving political purposes" (Smith, D.M. 1996:71-72).

*less urbanism* in their inner districts expressed in the diversity of urban services, spatial density, positive and negative urban marginality (e.g. dynamism, deviance, poverty) of its population than cities in capitalist economies (ibid:299-303). Third, applying an ecological approach, Szelenyi identifies *different levels of segregation*, because, socialist cities, “by restricting markets and by regulating regional processes, primarily through central planning, did produce and reproduce asymmetrical allocation of social classes, occupational and ethnic groups in space” (ibid:303).

Since Marx’s and Engel’s “Manifesto of the Communist Party” (1848) it has been argued that socialist ideology has an anti-urban bias in demanding the gradual abolition of town and country distinctions for avoiding the excessive and degrading spatial density of the industrial proletariat in capitalist cities (Scarpaci 2000:663). The ‘anti-metropolitan syndrome’ of state socialism (and capitalism likewise) is meant to “hinder the urban phenomenon, prevent urban development, reducing it to growth” (Lefebvre 2003 [1970]:167). Somehow ironically, the communist revolutions as well as the fall of the socialist regimes by the end of the 20<sup>th</sup> century would not have been possible without the urban base, presenting itself as “(...) a place of conflict and confrontation, a unity of contradictions” (Lefebvre 2003 [1970]:175). While generalisations (not only) of the socialist city remain difficult as urban processes have different dynamics over time and space, it can be concluded that formal institutions such as the non-existence of land markets, the far-reaching absence of private property, and the overall control of the central state in planning, organising and allocating resources and infrastructure produce a city type which has peculiar features and distinctive characteristics (Musil 1993).

It has been claimed that “In the socialist economy the non-economic factors of production – political, ideological, symbolic, social, military, technical – had enormous, if not over-riding importance” (Kostinskiy 2001:451). The central state realised its desire for socialist

symbolic meaning and ‘glittering icons’ (Dawson 1999), in particular, in already existing heavy industrial cities, often leading to an excessive expansion of those industries which were perceived as socialist model sectors such as coal and steel production in Upper Silesia. In some cases, green-field development led not only to the establishment of new industrial plants, but at the same time to the planning of new towns such as Nowa Huta or Tychy in Poland.<sup>69</sup> Indeed, the locational decision of Poland’s former biggest steelwork *Huta Im. Lenina* (today *Huta Sendzimir*) in Nowa Huta, newly erected in a district of Kraków in 1949, can be seen to a great extent as political, ideological and symbolical with the aim “to create a working class in a notoriously bourgeois city” (Stenning 2003:763).<sup>70</sup> As Bauman suggests, socialist society “was to be artificially designed and constructed, by freeing humankind from constraints of scarcity, ending human dependence on the limited gifts of nature, subordinating miserly nature to human needs – and forcing it to deliver more with the help of political will, science and technology, working in unison to magnify human productive forces” (Bauman 1991:263).

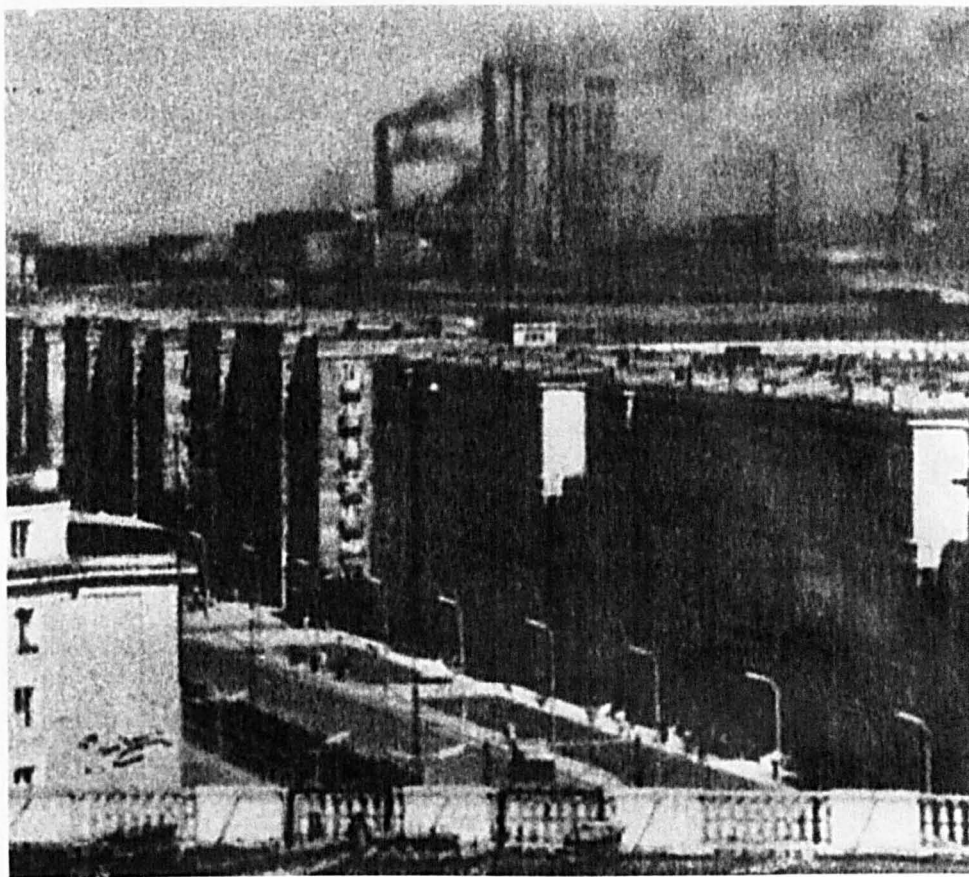
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<sup>69</sup> In contrast to the USSR, where about one third of today’s cities were planned and founded after 1945 (Treivish/Brade/Nefedova 1999:115; Nefedova/Treivish 2002:20), the planning of new towns in socialist countries of central Europe remained marginal. This can be explained by a higher pace of urbanisation in the USSR fuelled by the increasing exploitation of natural resources east of the Ural mountains. In the case of Poland, the share of the urban population rose between 1945 and 1970 from 31.8 to 52.2 per cent, mainly in industrial agglomerations (Musil 1980:77) and slowed down in 1980s.

<sup>70</sup> Stenning (2000:100) notes that the USSR co-funded this project with a US\$ 450 million loan to compensate Poland for the non-access to the US American Marshall Aid Fund, which was implemented in non-socialist countries and can be seen as a starting point in the economic and political division of Europe after WWII. It can be said that the locational decision of *Huta Im. Lenina* was enforced by Stalin in order to increase economic dependency, so called ‘horizontal integration’, according to the ‘socialism in one country’ policy of the USSR (Cheshire/Hamilton 2000:124). Dawson identifies this steelworks as a cultural symbol, because “its purpose was in part to symbolize the intention to transform southern Poland’s largely rural economy into one in which industry was to be dominant, and to change the economy of the country as a whole (...)” (Dawson 1999:157). Indeed, industrial investments between 1949 (100) and 1956 (330.5) rose dramatically following the Six-Year Plan, which “put forward the construction of socialist foundations in Poland (...)” (Landau/Tomaszewski 1985:217, data:221).



Photo 1: Huta Im. Lenina/Huta Nowa, 1967



Source: Dawson 1999:159

This utopian social engineering aimed at the expansion of major cities and their industries, which were regarded as focal points for the catch-up modernisation and economic growth of socialist countries. But despite the claim of overriding ‘non-economic’ forces in socialist economies, the often gigantic industrial expansion followed the universal economic rationale of the 20<sup>th</sup> century, searching for economies of scale and the efficiencies of agglomeration (Sailer-Fiege 1999:8).<sup>71</sup> The socialist adoption of the capitalist utopia of modernity had far-reaching consequences on the individual, as Buck-Morss identifies the differences for capitalist and socialist societies:

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<sup>71</sup> The development of a socialist economic theory is linked with the diverse political ‘undercurrents’ in the Soviet Politburo in the 1920s, which stretched from Bukharin’s gradualist approach during the transformation period (here of course the transformation from capitalism to communism) with the demand “we shall reach socialism by no other ways than through market relations” (Bukharin 1925 quoted in Lewin 1975:46) to the more radical, peasant-hostile programmes of Trotsky and Stalin (of the 1930s) who demanded accelerated industrialisation.

*Industrial modernity in both really existing forms, capitalist and socialist, created a hostile environment for human life, precisely the opposite of the dream of modernity. (...) In its construction of desire, industrial modernity offers a substitute for human fulfilment the illusion of omnipotence. Its form under capitalism is the consumer illusion of instant gratification, while long-term needs go unattended and social security is so precarious that unemployment strikes with the fate of a natural catastrophe. Under the Soviet style of socialism, the situation is reversed: the illusion is that the state will provide total security (in return for total dependency), while there is no control over immediate satisfactions. Whether you happen to collide with bread tomorrow is left totally to chance" (Buck-Morss 2000:205).*

The claim of food shortages might be overstated in describing the overall nature of consumers' everyday real socialist experience between Vladivostok and Prague in the second half of the 20<sup>th</sup> century. But without a doubt, the unintended shortcomings of centrally controlled socialist economic planning generated a growing dissatisfaction among the working population, which materialised in bigger industrial cities, triggered by consumer goods shortages and price inflation in the face of an aggravating economic and political crises in the 1980s.<sup>72</sup>

The expansion and symbolic meaning of the heavy industries and the underlying socialist accumulation model leads to a unique set of formal and informal institutions, which define the socialist industrial city and its spatial-relational routines over time. In analysing the socialist peculiarity of organisations, technologies, and territory, at least five main characteristics of formal/informal institutions, spatial divisions of labour, and network properties can be identified.

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<sup>72</sup> In Poland, the failed economic reforms of the 1970s and 1980s and the intensifying political and economic crises led to a growing protest against the socialist state and its institutions. In the course of the famous strikes in the shipyard at Gdansk and the rise of Solidarity, the opposition also grew in Upper Silesia where miners started an underground occupation strike in the *Wujek* coal mine (Katowice) at the outset of martial law in December 1981, which ended with nine miners killed by the riot police ZOMO (Cybula 2004:244; Ascherson 1987:223). During the sunset of the Polish socialist regime in the 1980s, between 60 and 80 per cent of the adults supported the introduction of free markets and competition into the economy while remaining hostile towards private businesses (Gomulka 1993:188).

First, the centralised state and its organisations generated a political elite, the state-appointed *nomenklatura*, which governed the large-scale state-owned enterprises in the planned economy (Frydman/Rapaczynski 1994:12). The economic-political elite shared common ideals and routines, which were learned in mass organisations and practised in horizontal and vertical economic-political networks of trust and mutual help. Second, due to the centrally planned nature of socialist economies and the state control of the enterprises, political local and regional decision makers remained weak in shaping the future of their cities and urban economies. Quite the contrary, “enterprises exercise relations of dominance and control over the communities (...) and are paralysed (...) in this hierarchy of power” (Pickles 1998:176).<sup>73</sup> Third, the far-reaching lack of a competitive market and private business ownership<sup>74</sup> and thus the irrelevance of transaction costs heightened the mono-structural economic fabric of the socialist city and the dominance of large-scale enterprises, which became self-sufficient and “highly vertically integrated in order to ensure adequate inputs of raw materials that were not easily accessible” (Oughton 1997:164). Additionally, in order to fulfil the official economic plan of the enterprise in an environment of scarcity and creative chaos, the management was forced to consider non-monetary transactions with other enterprises. Fourth, the high level of vertical integration and historically unprecedented concentration of economic assets created formal and informal strong ties not only between suppliers and customers (Elster/Offe/Preuss 1998:159), or between different production parts of the plant, but also between the enterprise and the workforce. The establishment of enterprise-owned social and educational infrastructure, housing, transport facilities, and the privileged provision of

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<sup>73</sup> This lack of control was most visible in the absence of local authority’s intervention due to the disastrous ecological damages and space consumption of the heavy industries. The emerging environmentalism in unofficial civic action groups of the 1970s and 1980s led to bottom-up movements for local and regional concerns (Pickvance 1996:236-243).

<sup>74</sup> In analysing the socialist regime of property laws in different countries, Marcuse (1996) reminds us that some property rights indeed existed in form of *social* ownership, such as rental housing, which was state-guaranteed. Moreover, private owned businesses started to emerge in several socialist countries during the 1980s. In the case of Poland, this happened in the course of the economic crisis of 1979-1982, when “setting up new enterprises by citizens were simplified, the burden of accounting was lessened, and permission was given to private enterprises to freely contract with the state sector” (Poznanski 1996:102).

scarce consumer goods for the socialist model workforce created labour relations characterised by interdependence and high levels of identification, but also with risk aversion and 'grab-and-run' behaviour on both sides (ibid:158). Fifth, official output targets which could not be met and the lack of price flexibility generated 'creative' (or parallel) economies on the one side, but disincentives on the other side internal technological innovation in plants due to the unwanted requirement of managerial routine change (Nielsen 1996:62; Poznanski 1996:254).<sup>75</sup>

Like French and Hamilton in the 1970s, it can be asked in what ways the claimed post-socialist city is different from the socialist city, as the capitalist mode of production is the new paradigm after the fall of the communist accumulation model. Incorporating institutional and evolutionary thinking, it can be assumed that this shift is not limited to the transformation of spatial organisation, but involves a gradual change in, but also continuation of, formal and informal institutions, which define and shape the post-socialist economic-political space.

### 3.2.2 The Post-Socialist City

The last section of this chapter briefly highlights the main topics and problems in defining the emergence of the post-socialist city in terms of its formal and informal institutional change after the fall of the socialist one-party state and the introduction of the capitalist mode of accumulation. As stated above, the main reasoning is to understand the urban economic transformation process as a complex and path-dependent recombination of institutions, instead of describing the perceived change in terms of new patterns of spatial organisation. However, a few examples will illustrate changes in spatial organisation as a cause of institutional change.

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<sup>75</sup> Cheshire and Hamilton (2000) note that technological modernisation processes started in the Warsaw Treaty countries by the 1970s, which stimulated closer ties between socialist and capitalist cities through technology transfer (Cheshire/Hamilton 2000:125).

In describing the transformation process of post-socialist cities, the standard narration has been to identify the spatial organisation as deeply affected by the ongoing political and devastating socio-economic changes. In a UNDP publication published by the end of the 1990s, the *local* 'success' of coping with negative effects of the transformation process is perceived as decisive for the overall reintegration of former socialist countries into the rest of Europe.

*While the view that efforts to find solutions at the level of the individual, household, community or firm will be defeated without successes at wider economic scales has been accepted as truism, it is equally the case that without establishing the basis at the local and grass root level for the organizational strengths to carry out the routines of provisioning and maintaining human settlements, initiatives at the macro-scale will themselves be undermined by social conflict and divisive politics (UNDP w/o year:5)<sup>76</sup>*

In an overall atmosphere of crisis, 'managing transformations' is the main concern of action for international development agencies, because "the real issue is not to blame specific institutions [organisations] for failures in predicting or managing transformations. The issue is the need to learn from the experience of the nineties and to develop efficient patterns of management of continuing transformations" (Genov 1999:129). In addition to the focus on management skills and 'best practices' in urban contexts, these accounts of transformations reduce urban processes to a re-organisation and improvement of all kinds of settlement infrastructure, in particular housing, water and electricity, transport and health with the assumption "that investments in improving the physical conditions of human settlements vastly improve economic potentials and life chances for industry and citizens alike" (UNDP w/o year:102).

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<sup>76</sup> The quoted UNDP publication identifies six spheres of transformation: first the growth and distribution of population and human activities at local, national and international levels; second, the transformation from command to capitalist economy; third, the transformation of state-civil society relations; fourth, the destruction of the natural environment; fifth, the transformation of the built environment; and sixth, changes of social institutions such as family, household, community "that are shaking the foundations of daily life and attachment to place" (UNDP w/o year:5).

The author does not suggest that improvements in urban management and infrastructure are not necessary, but that post-socialist urban change is much more than re-organising and re-designing the city to fit with the new capitalist accumulation mode. Moreover, in this approach the city and its formal and informal institutions are taken for granted or described as fixed 'black boxes', which mediate change. These perspectives even stumble to introduce the capitalist management practices they wish to, because specific urban post-socialist transformation processes and their *informal* institutional contents are not taken seriously enough. In what follows, therefore, the main political and economic events in the aftermath of the collapse of state socialism are linked with their effects on cities. During the first transformation period, early studies on post-socialist cities mirrored the overwhelming political and economic changes in CEE, in particular processes of democratisation and marketisation, although they barely focused on the interrelation between these two mega forces of change or took them for granted (Stenning 1999:592). The following paragraphs highlight the most crucial *formal* institutional changes and their impacts on the post-socialist city. The final paragraph suggests a first assessment of changed and recombined *informal* institutions in the case of *urban* post-socialism and its political-economic framework, because "It is at the local scale that processes of transformation are lived and it is often at this scale that popular assessments of the achievements of political and economic changes are made" (ibid.).

The dissolution of the Warsaw Treaty and the re-establishment of political sovereignty in the former member countries had the effect that cities, previously focussing on economic relations to other socialist spaces, were now trying to re-integrate to the European urban network – and at the same time experienced the rise of 'western-style' urban social problems (Scarpaci 2000:664). In terms of urban *formal* institutional changes, one of most important was the return of self-governance and the division of power between local, regional and central levels after decades of fused party and state institutions (see chap.

4.3). The devolution of authorities, and thus a partial transfer of control and power from the central to the local and regional level aims at increasing political accountability, but has been realised rather late in the transformation process, because these so called second generation reforms initially “fell to the bottom of already crowded political agendas” (Yoder 2003:263). Despite significant differences of local and regional transformation policies in former socialist countries, it can be said that the central state has been weakened. But this does not necessarily mean that elected local or regional self-governments have been strengthened at the same time, giving evidence for incoherent reform efforts and political/administrative fragmentation what resulted in difficulties of implementing urban development programmes (Surazska 1996; Kovács 1999:1-2; O’Dwyer 2002:17-18).

The second meta event with a direct impact on the economic and social fabric on cities was the breaking up of the socialist Council for Mutual Economic Assistance (CMEA) alongside the introduction of capitalist markets and legislation. This event was part of the implementation of shock-therapy and proved to be an initial disaster for the national economies involved, which suddenly lost their most important trading partners and production linkages, leading to bankruptcy and mass-liquidation of then still state-owned companies (Gowan 1995:17). ‘One-industry cities’, such as the cities of Upper Silesia, were the most affected by this process and “are stagnating, declining or facing difficulties in restructuring their economic base” (Cheshire/Hamilton 2000:125). As a parallel development, western corporations start to penetrate former socialist markets, bringing foreign capital and new technology to these cities and this still remains a driving force in economic restructuring. In addition to the arrival of global capital, the introduction of market mechanisms and capitalist modes of production, processes of commodification and the privatisation of surviving state assets are most relevant in terms of urban development (Grime 1999). The emergence of new property rights through privatisation must be seen as

a major formal institutional change in post-socialist societies. In analysing both, socialist and post-socialist property rights, Marcuse concludes that

*The new directions towards which [Central and] Eastern European countries are moving thus involve both changes in ideology and changes in the distribution of power. The result has been seemingly neat general declarations about 'the rights of private property' adopted in constitutions and legislation, followed by more specific but often contradictory legislation regulating specific aspects of property rights (...), followed by even more concrete and even more contradictory administrative actions (...). Consistency becomes of less importance as the complex impact of changes in property rights on specific interests become clear"* (Marcuse 1996:183).

Last but not least, as an effect of the abovementioned formal institutional changes, private businesses started to freely develop and the increasing number of small- and medium sized enterprises, in particular urban service industries, significantly changed the economic spaces of post-socialist cities, giving at least limited evidence of a "convergent trajectory towards their West European counterparts" (Cheshire/Hamilton 2000:125).<sup>77</sup>

These radical formal institutional changes have had wide-ranging impacts on former socialist cities and have been changing many aspects of their economic and social life. In the course of the ongoing privatisation process, the emerging domestic or foreign enterprises have usually taken over only parts of the previous large-scale enterprises, in particular in the heavy industries, shutting down unprofitable production lines.<sup>78</sup> As a result, large inner-urban derelict areas with serious problems of contamination have been

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<sup>77</sup> The academic debate over the convergence of post-socialist cities towards western cities is not settled. Sailer-Fliege argues that "A simple convergence of urban development in the direction of the US or continental European pattern is (...) not to be expected - regardless of the design of institutions - as a general rise in the affluence of the masses of the population was of fundamental importance for each of these patterns of urban development. As demonstrated by the impact of the recent dynamic of globalisation process on the capitalist states of the west, this process goes hand-in-hand with a widening of the social gap and the tightening of the public purse strings" (Sailer-Fliege 1999:15-16).

<sup>78</sup> Most of the privatisation efforts in CEE (with exception of former Czechoslovakia and Hungary) led to so called 'insider privatisations' with a majority ownership by workers or by workers and managers (Estrin 1996:13). The case of Poland and Upper Silesia will be discussed with more detail in chapter 4.1.1.



created, so that most local self-governments are not in a position to implement essential time- and cost-intensive re-development measures because of their tight financial situation (Sailer-Fliege 1999:12).

Moreover, in the course of economic restructuring and privatisation stiff competition between the different local authorities occurs, in particular to attract foreign direct investments. The escalating demand for space from private local and global enterprises results into a process, where scarce municipal funds are often absorbed by the establishment of green-field manufacturing, warehousing and shopping areas with business-friendly infrastructure on urban fringes (Cheshire/Hamilton 2000:123). These are sometimes risky public investments, because firms enjoy a freedom of choice in locating their activities, a fact which can be abused by investors in terms of articulating exaggerated preconditions of their investments. As a result, post-socialist cities are experiencing spatial polarisation of economic activity and a “complex struggle between contending groups for economic advantage, political power and social position” (Harloe 1996:15). The transformation in the economy also includes changes in the social sphere that have influenced urban and regional labour markets, inequalities in income and the emergence of regions with the highest unemployment rates in the EU-25, all of which have a severe economic and spatial dimension, because “low level of productive activity accompanies social problems in these [disadvantaged] areas, and may to a degree explain them” (OECD 2001a:213).<sup>79</sup>

The ongoing crisis reflects the “reality that the transition period was likely to be longer rather than short [and that] change, in the sense of the collapse of the ‘old’ and the

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<sup>79</sup> This OECD statement points to recent developments in the location of factors of production and growing spatial disparities between areas with low manpower costs and ‘successful’ high-tech areas. The authors observe a changing tendency, whereby “leading-edge production now seems to be going towards areas offering the most diversified resources and the lowest transaction costs, that is to say towards the most developed areas” (OECD 2001:213). From this perspective, old industrial and mono-structured areas will decline further, because of the highly selective investment strategies of global players.

introduction of new political institutions and of market mechanisms, would not be achieved in the short term” (Kostinskiy 2001:451). As Szelenyi observes, by the mid 1990s, “many features of socialist urban development are now decaying rapidly, and those that still survive are increasingly in contradiction with the emergent socio-economic reality of the region [CEE]” (Szelenyi 1996:288). The recognition of ‘useless’ socialist features also reflects the idea that surviving *informal* institutions are seen to be obsolete and hindering the new economic urban order, an assessment which is not necessarily shared by evolutionist researchers. In a typically negative assessment of ‘socialist features’ in post-socialist contexts, Hamilton notes, that

*“faced with steep learning curves regarding unfamiliar or perceived-as-threatening policies and organizations under conditions of great risk, uncertainty and dismantling of the socialist state – many government and enterprise decision-makers, institutional architects and public administrators ‘retreated’ into the practices, behaviour or positions of the socialist period (...) and actively or passively resisted changes and reforms” (Hamilton 1999:138).*

State-owned enterprises are usually at the centre of attention in terms of the survival of socialist networks and their routines and conventions, where ‘insecure’ managers – the former socialist *nomenklatura* – take advantage of political connections for personal enrichment (Poznanski 1996:223-224). In terms of re-combined networks and routines in post-socialist urban or regional contexts, the accounts are based on speculation or just not studied. Despite the demand, that a “focus only on the development of formal institutions is insufficient” (Hamilton 1999:138), an extensive, path-dependent analysis of informal institutional change has still to be conducted. In order to analyse this change along the framework of *organisations, technology, and territory*, the diverse relationships between emerging private businesses, (privatised) state-owned enterprises, transnational corporations, and newly established local and regional self-governments is identified as crucial in post-socialist contexts.

Before turning to these aspects with a case study in Upper Silesia in chapters 5 and 6, the next chapter provides an overview of the specific context of Polish economic transformation in general and Upper Silesia in particular.

## 4 Polish Economic and Political Transformations

This chapter sets out some of the major economic and political dynamics of post-socialist transformation in Poland, interpreted as space-time path-dependent processes. In what follows, therefore, the change of formal economic institutions such as competitive markets and capitalist property regimes has allowed the emergence of private businesses, the privatisation of state-owned assets and the influx of foreign direct investments (FDIs) on Polish territories in the aftermath of socialist modes of accumulation. Furthermore, the economic restructuring measures of the heavy industries provide evidence of the complexity of transformation and formal/informal institutional change in Upper Silesia with its still dominant coal and steel sector. The preliminary description of (economic) organisations, their technological pathways and embeddedness in economic post-socialist spaces aims to take a first step in seeing to integrate Storper's analytical framework into old industrial regions with socialist legacies.

Triggered by the lost dominance of the socialist central state and the demand for political accountability and legitimacy in the process of democratisation since the late 1980s, the rise of local and regional self-governments in Poland is also introduced. The process of decentralisation is analysed in order to identify the short-comings and problems of political-administrative reforms at the regional level and hence to provide first insights into the transformation of the different modes of political power. Moreover, the evolution of economic development programmes of the Województwa Śląskiego (Voivodship of Silesia)<sup>80</sup> is introduced in order to identify the implications for political-economic actors and the process of restructuring. The last part of this chapter leads into an assessment of the path-dependent evolution of Polish regions and aims to identify their institutional

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<sup>80</sup> See footnote 21 for a short historical introduction of Upper Silesia, which is now territorially integrated into the regional administrative body of the Silesian Voivodship, and how these terms are used and defined in this thesis.

capacities for supporting economic development, restructuring and the adoption of capitalist modes of production.

The main reasoning of this chapter is to present post-socialist spaces as both distanced or spatially stretched (in the sense of Amin/Thrift 2002, see chapter 3.1.2) and proximate or spaces of propinquity, so that the relationship between these interlinked concepts may be explored. At the first glance both the growth of international trade with Poland and the dependence on external financial aid in restructuring and transforming the Polish industry is striking. The peculiarity of the 'Polish way' in dealing with enormous external pressure, set up by international development agencies and the European Union on the eve of Poland's accession, makes it necessary to consider the internal implications of becoming a post-socialist space.

#### **4.1 Institutional Economic Change in Poland and Upper Silesia**

The establishment of major economic formal institutions in Poland to fit with a capitalist economy, can largely be regarded as accomplished, even if their compatibility with each other has been criticised (Poznanski 1996:276). In relevant publications of international agencies, Poland is regularly presented as a success case of economic transformation, as the following OECD statement suggests.

*"Poland's accession to the European Union on 1<sup>st</sup> May 2004 marks a turning point in its economic and political history. It follows 15 years of profound change and accomplishment. More than 75 per cent of GDP is now produced in the private sector, the economy is well integrated with those of western nations and inflation has been brought down to low levels. After an initial fall, output has been growing continuously for more than 10 years and on average, Poles are much better off now than they were then" (OECD 2004:9).*

The economic transformation has been facilitated by major changes of laws and efforts to mainstream the regulatory framework in neo-liberal fashion. Industrial policy and state

regulation have given way to market forces, and formal economic relations governed by law. “[E]ven where domestic opposition to reform was strong (...), government leaders were able to preserve their autonomy domestically using the ‘shield’ of mandatory harmonization with EU policies” (Campbell 2002:499). However, the radical and multi-dimensional withdrawal of the state, conducted in line with the ideology of shock-therapy in order to implement liberal market mechanisms, is faced with an ‘orthodox paradox’: “destatization can only be accomplished by the state and thus presupposes state interventions and a ‘strong state’” (Elster/Offe/Preuss 1998:160).

Many macro-economic indicators suggest that Poland has become a successful European capitalist state following only 15 years of transformation. Poland’s GDP growth, the emergent private sector with over three million independent firms, the Polish stock market, which is regarded as one of the most active and the largest in CEE and Poland’s achievement in attracting substantial foreign investments speak a language of dramatic change, if compared with similar indicators at the very beginning of the 1990s, when it was, “Nearly written off as the new sick man of Europe – and as evidence that shock therapies do not work” (World Bank 1994:1).<sup>81</sup> The snap-shot like ups and downs of macro-economic data drive a country’s assessment of being either successful or unsuccessful in its transformation process, although the gap between these two extremes is sometimes only a few per cent. Moreover, in the case of Poland and other transformation countries, recent economic development increasingly not only has an internal dimension in terms of adequate reforms and policies, but must also be seen in European and global contexts. However, the procedural description of macro-economic data on national levels

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<sup>81</sup> The average annual volume growth of Polish GDP was 5.2 per cent between 1995 and 2000. Except for a significant slump during the first three and a half years of this decade, GDP growth oscillated around 4 and 5 per cent since the last quarter of 2003, mainly fuelled by increasing exports (OECD 2004:25). By 2002, Poland had accumulated more than \$45 billion FDIs, the highest amount among post-socialist accession countries, although in terms of per cent of GDP, the lowest share (OECD 2004:47). The Warsaw stock exchange (WSE) is regarded as the largest in CEE with a market capitalisation (2003), which is almost identical to the combined market value of the next three largest stock exchanges in CEE, although the WSE is equal to only 21 per cent of the Polish GDP (OECD 2004:146).

does not reveal how economic transformation takes place at meso- and micro-scales and in what ways locally based organisations are faced with or deal with the cycles of crisis and boom.

Despite Poland's macro-economic success in becoming the 'east European tiger' over the past decade, the difficult economic restructuring and the rise of mass unemployment provides a more cloudy picture, which has raised the question 'What Polish miracle?' (Guardian/G2: 12.06.2002). More broadly, there is a growing unease regarding the increased divisions, inequalities, and poverty within post-socialist societies (Smith/Pickles 1998:21; Szulc 2000). Besides the demand for 'sound' macro-economic state policies, international development agencies identify three particular problems for 'the Polish economy'. These are the functioning of labour markets and the restructuring of state enterprises (chapter 4.1.2) alongside the interlinked privatisation process (chapter 4.1.1).

The sharp increase of unemployment from around 10 per cent at the end of 1998 to 15 per cent at the end of 2000 has been largely attributed to a similar slowdown of production in western Europe, as well as to the implementation of restructuring programmes in unprofitable state sectors such as mining and steel (OECD 2001:29+32; Bell 2001:6). Although GDP growth rates have recovered since then, the growing unemployment rate of around 20 per cent and more since 2002 looks increasingly structural in nature and "represents the most important challenge facing the Polish economy" (OECD 2004:9-10). Labour relations in Poland, seen as traded interdependencies, have also deteriorated, because policies "focus almost exclusively on the supply side with the objective of reestablishing the perfect market of neoclassical theory, and their measures are designed to adapt the labor supply to the new conditions" (Camara 2003:54). The large-scale loss of employment in the course of restructuring and labour market policies adapted to the 'new conditions', which demand a high degree of flexibility, risk-taking and entrepreneurship

from the workforce, have to be set in the broader contexts of neo-liberalisation in post-socialist countries. The main driving forces of neo-liberalism are international economists and financial organisations, which conditionally attach clauses to their lending programmes (Rainnie/Smith/Swain 2002:7). This externality of economic transformation has forced Poland into tight state budget spending, and macro-economic policies in line with neo-liberal ideology.<sup>82</sup>

The comparison of regional distribution of GDP generated and unemployment (see map below for the fourth quarter of 2003) suggests widening regional disparities in Poland (Statistical Office in Katowice 2002a:35), a tendency which mirrors similar spatial processes in countries of the western world (OECD 2001a:34). In terms of GDP per capita (1998) only three regions are above the national average (100) with the Silesian Voivodship (111.9) coming second after the capital voivodship of Mazowieckie (146.1) (Blazyca et al. 2002:270).<sup>83</sup> The unequal distribution of economic activity reflects a continuing west-east divide of industrial development. The eastern regions of Poland have a strong agricultural economic base and thus contribute less to the national GDP, whereas the southern, central, and northern regions are characterised by much higher degrees of industrialisation, a spatial pattern, which leads to the suggestion of three major distinctive Polish spaces (ibid.). However, Blazyca et al. (2002:271) argue that economic success of the 1990s is not so much a matter of regional location, but an urban phenomenon, whereby the larger the town, the more successful they are. The regional distribution of unemployment mirrors in particular the restructuring of large-scale state-enterprises, down-sizing and closures of whole plants, in particular in the most industrialised region of

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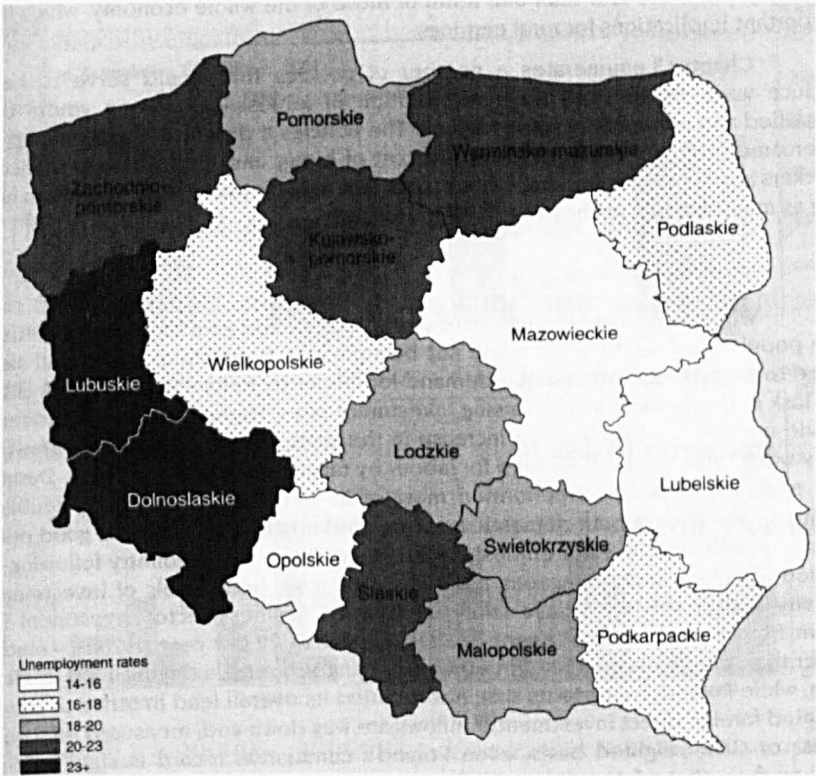
<sup>82</sup> For example, in 2003 only 15 per cent of unemployed Poles obtained unemployment benefits, which equals about 1 per cent of GDP, one of the lowest ratios in the OECD world (OECD 2004:104).

<sup>83</sup> These three voivodships, Mazowieckie, Śląskie, and Wielkopolskie (105.6) generated about 43 per cent of the Polish GDP in 1997 (OECD 2001a:94).



Poland, Upper Silesia.<sup>84</sup> In contrast to the rural eastern areas, western regions such as Lubuskie and Dolnośląskie also show exceptionally high rates of unemployment, close to the highest in EU-25, in particular fuelled by joblessness among youth and older workers (OECD 2004:41-43).

**Map 3: Regional Distribution of Unemployment in Poland (last ¼ 2004)**



Source: OECD 2004:45

The evolution of post-socialist unemployment in the Śląskie Voivodship (until 1998 Katowice Voivodship) reveals a contradiction in the picture of Poland as a model pupil of neo-liberal ideology. Throughout the 1990s, the unemployment rates in this region oscillated well below the national average (Gorzela 1996:72; Czyż/Churski/Hauke 2000:35), a fact which changed only recently and makes it possible to speak of a ‘regional loser’ of economic transformation and of ‘negative discontinuity’ (Gorzela 2000:136). Despite different advice from organisations such as World Bank, OECD and EU, the

<sup>84</sup> The industrial sector (including mining, manufacturing, energy) of the Śląskie Voivodship contributed with 17.6 per cent (2000) to the national industrial output measured by the share of the sectoral GDP and has thus declined significantly since 1995 (21.4 per cent), but it remains the highest regional proportion in Poland (Statistical Office in Katowice 2002:251).

restructuring and privatisation process pursued a different pace which reflects, “The slower than economically justified decline of industrial employment in the Katowice region (...) due to the political power of workers and their trade unions” (Gorzelak 2001:219). The following sections highlight the most important features of post-socialist formal institutional change, mainly seen from the outsider perspective of the international development agencies which have significantly influenced this process.

#### 4.1.1 Privatisation

The institutional change to a free market and its effective external co-ordination of economic agents, supports the logic that state assets should become privatised because “It is the rational structure of *corporate governance* that the state enterprises in [Central] Eastern Europe are lacking, and the main task of privatisation is to introduce it. Without it, no amount of deregulation and decentralization will produce a well-functioning market economy” (Frydman/Rapaczynski 1994:48, original emphasis). Not surprisingly, the pace of privatisation has been the favoured indicator for measuring the transformation to a capitalist economy, although “the goals which are supposed to be advanced by privatisation are varied, ill defined, and often tend to be contradictory” (Rutland 1997:270).<sup>85</sup>

The official announcement of implementing privatisation measures was full of drive, politically embracing the economic shock-therapies in the so called “Balcerowicz Programme” (1990-1991), which promised to implement a functioning capitalist market economy within a mere two years (Kowalik 1994:171). The Polish privatisation programme started in August 1990 with the introduction of the Privatisation Law, which had “to develop strategies and instruments almost from scratch” (OECD 1992:100).

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<sup>85</sup> This section deals only with privatisation measures of state-owned industries. Other privatisation topics in CEE such as the privatisation of the housing sector (Marcuse 1996; Struyk 1996) or private property restitution (Blacksell/Born 2002) are not analysed.

Already a few years into the first transformation period, a World Bank publication notes ambivalently that

*“The core problem in transforming Poland into a market-oriented economy is transforming the state enterprise sector. Privatization and the enforcement of hard budget constraints have been the mainstays of the government strategy since the 1990s, and tremendous progress has been achieved in a relatively short time. But the transformation is far from complete. Privatization has been slower than wished for. And much of industry is still state-owned, without effective ownership control” (World Bank 1994:63).*

The early neo-liberal blueprint of radical system change led to unexpected macro-economic de-stabilisation with high inflation (1990: 600 per cent; 1991: 71; 1992: 42) and a deepening recession, so called ‘slumpflation’, all in all a very hostile environment for privatisation (Kowalik 1994:175-177). Accordingly to the overall economic depression during the first transformation period (chapter 1.1), privatisation measures were met with growing societal opposition and triggered fierce political debates, which ‘delayed’ the mass privatisation programme (OECD 1994:78).

The first privatisation efforts in a time of *nomenklatura* capitalism had already started in 1989, still under communist rule, when “an untold number of apparatchiks landed comfortably as the new owners of promising units carved out of the former state enterprises” (Stark/Bruszt 1998:94). Under the first democratically elected government and first attempts at voucher schemes and employee ownership, the post-socialist privatisation path and ownership transfer emphasised sales to strategic investors, with the state retaining stakes in many large companies.<sup>86</sup> Most of the larger enterprises were *indirectly* privatised (capital privatisation) under the supervision of the central state, represented by the Ministry

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<sup>86</sup> The ownership structures after indirect privatisation are extremely diverse and can range from state shares of 3.8 per cent in the case of a former state-owned wholesale retailer up to 56 per cent in the case of an insurance (OECD 2001:84-85). In general, the energy sector, mining and other heavy industries have still the highest state shares, if these companies become privatised. See also FN11 and chapter 6.1.3 for more examples and information about privatisation efforts on national and regional level.

of the State Treasury (Ministerstwo Skarbu Państwa). This means that the enterprise is legally commercialised (commercial code companies) before parts of the shares are sold to private investors (OECD 1998:48), a process which will be critically analysed in chapter 5.1.1 with an example of the steel industry. In contrast to this strategy, *direct* privatisation aims at total transfer of ownership, usually applied to smaller companies, “in which the authorities see no policy reason to retain ownership stakes” (OECD 2001:82). This level of privatisation is handled at the regional level and will be discussed with more detail in chapter 6.1.3.

Besides the political sensitivity of privatisation measures, the relatively slow process reflects a privatisation system that includes lengthy consultation with social partners, management and workers with ministerial approvals. The OECD has identified several factors as being responsible for the ‘delayed’ privatisation in Poland, in particular in the mining and energy sector (OECD 2002:122-130).

**Table 1: Size of the Private Sector in Poland (as a per cent of the whole economy)**

Sector	Employment		Gross Output	
	1995	2000	1995	2000
Agriculture	97.7	98.7	88.3	89.4
Industry	50.5	74.8	47.7	71.6
Mining	3.1	14.0	2.4	29.3
Manufacturing	60.0	85.9	57.5	82.0
Electricity, Gas, Water	3.7	6.9	2.0	4.4
Transport, Storage & Communication	26.7	37.6	40.2	49.9
Financial Services	36.4	72.2	67.4	82.6
<b>Average of all Sectors</b>	<b>62.8</b>	<b>73.7</b>	<b>61.1</b>	<b>74.4</b>

Source: OECD 2002:122

First, they argue that the privatisation process is partly blocked by internal interest structures of state-controlled enterprises what often leads to failed consensus between management and labour representatives (Poznanski 1996:223-227). Public-enterprise insiders use the mechanisms to defend their own interests, which they sometimes perceive as being best served by maintaining state-ownership. Additionally, current *indirect*

privatisation rules require that before privatisation negotiations between the Ministry of the State Treasury and an eventual buyer begin, both parties have to agree on a restructuring package for the enterprise, including an investment and social plan (OECD 2002:123). In the case of *direct* privatisations, a consultative process involves the regional voivodship authorities, the buyer, existing management and labour representatives. Thus, Polish privatisation measures culminate, according to some observers, in “corruption-generating linkages between political parties, politicians and trade unions (...) to wield power in their own narrow interest using (...) appointments to firms’ and public agency supervisory boards as form of patronage” (Maciejka 2001:155).

Second, it is suggested that the management and logistical problems posed by the large number of state-owned or controlled firms weakens the Ministry of State Treasury capacity to provide effective governance to firms, in which nearly four thousand individuals represent the State Treasury (OECD 2002:129). Moreover, for a Ministry employee, representing the state on a firm’s board is a lucrative job, which pays as much as 100 per cent of the average wage in addition to the regular salary. In such a case, the incentives to actively find a buyer for a state-controlled company may be greatly hindered (ibid.).

A *third* source of difficulties in the privatisation process points to industrial sectors of national (strategic) interest, such as steel, coal and energy, defence, and transport, where politicians and authorities demand the presence of ‘strong’ Polish interests, which complicates negotiations with possible foreign investors. Additionally, in order to achieve higher sales prices, the strategy ‘restructuring before privatisation’ has been pursued in these industries, a path that still receives much criticism from international development and finance agencies, because, “The argument that pre-privatisation restructuring is necessary to maximise the sale price of the firm appears to abstract from the costs (...) incurred by the government during the restructuring process” (ibid:130).

#### 4.1.2 Restructuring of State-owned Mining and Steel Industries

Despite more than fifteen years of efforts to restructure state-controlled industries such as coal and steel as well as significant improvements in productivity, many of them remain uncompetitive and a drain on the nation's resources due to subsidies and high restructuring costs (Riley/Tkocz 1998; 1999; Szczepański 2003). Several governments in Poland have suggested that the coal and steel sectors have to be restructured before they are privatised. Accordingly, over the past fifteen years, these sectors have been faced with a series of restructuring plans aimed at restoring profitability before proceeding with a sale. The authorities suggest that unless the firms are restructured to profitability, they will not find a purchaser. Indeed, despite repetitive tenders and the sale of some single sites, not many private investors have been willing to agree to acquire these firms on the conditions demanded by the government (OECD 2002:116). What remains, are many 'unwanted assets' with new functions, often close to city centres, as Cybula illustrates dramatically for the case of Upper Silesia:

*"Their formal owners neglect the business or cannot afford to keep it running. One can get a sense of the gravity of the situation by entering some seemingly abandoned and inadequately policed industrial installations. They are rusting, the equipment is being looted, and the premises are a safe haven for the homeless, drunkards, petty criminals and other marginalised individuals. For several years, an extreme example was a steelwork that rusted close to the market square and a main shopping street of a city with 120,000 residents!" (Cybula 2004:250).*

The Upper Silesian coal-mining industry is still the most important sector in the region and the biggest in Europe outside of the former USSR, despite its decreasing share of industrial output and employment.<sup>87</sup> The sector's excess capacity, over-employment, lack of

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<sup>87</sup> In 1998, 91.2 per cent of the Polish sold hard coal output was produced in the voivodship Śląskie Voivodship (2000:31). In 2000, the mining and quarrying sector represented 18.2 per cent (1998:21.4) of the industrial output of the region, followed by motor vehicles and trailers (16.9 per cent), basic metalworking (16.0), electricity, gas and water (10.2), food and beverages (9.1), metal products (4.8) and other sectors (Cybula 2004:248-249). The Silesian figures of mining and quarrying products between 2000 and 2002

profitability and heavy indebtedness has been subject to several successive restructuring plans, such as the “Coal Sector Reform Programme 1998-2002” (OECD 2001:89-95).<sup>88</sup> The programme was introduced with the help of a \$1 billion loan from the World Bank to support closures of unprofitable mines and reductions in output and the workforce. Measures included early retirement and severance packages, retraining for workers, subsidies to companies hiring former miners and support to local governments.

Indeed, between May 1998 and May 2001 Polish coal-mining employment fell from 243000 to 153000, although 8.4 per cent of all jobs in the Śląskie Voivodship are still coal related (Blazycza et al. 2002:264; OECD 2002:116). Of the lost 90000 jobs, about 28000 were due to natural wastage and 62000 involved early retirement or voluntary severance deals (ibid.). The workforce target level of 128000 was expected to be reached by 2002/03 and reflects the decrease of coal mines from 72 to 42, through closures and mergers.

Due to the restructuring, the coal companies were able to reduce their costs per produced tonne by –9.2 per cent in 1999 and –4.5 per cent in 2000 (OECD 2001:94). With the help of higher domestic prices the firms’ earnings also improved. Currently, about 70 per cent of Poland’s total primary energy is derived from coal, and exports to Europe remain an important source of foreign exchange. Despite the successes, the privatisation of profitable mines has stalled. Under pressure from trade unions, the government cancelled negotiations on the sale of the *KWK Bogdanka S.A.* in October 2001 (OECD 2002:117). The sale of *WKW Budryk S.A.* has been under privatisation analysis (ibid.). The latest restructuring plan suggests a merger of the current seven groupings of mines and the

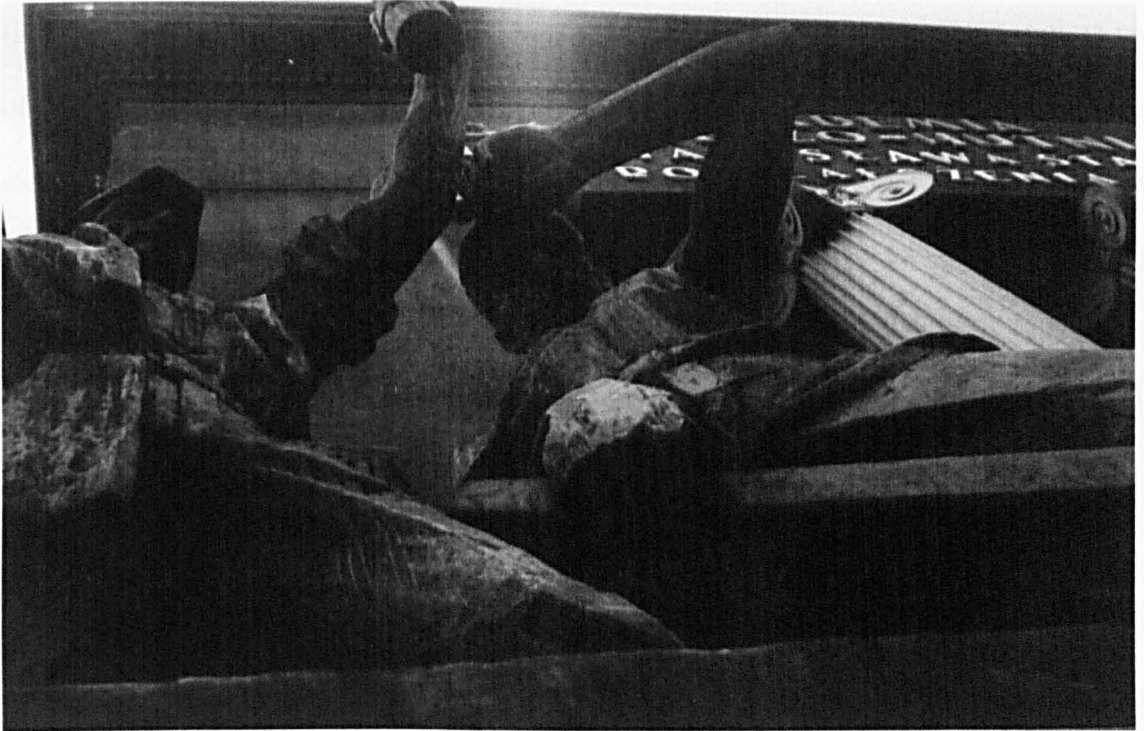
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indicate a stabilised output of hard coal around 100 Mio tons per year (Statistical Office in Katowice 2002b:126+135).

<sup>88</sup> Already in the midst of economic crisis in 1985, a group of ‘independent Polish economists’ suggested “that for correct economic calculation coal prices should be raised not only to the level of profitability, but to the level of prices obtained for exports (...). The mines would then not only cover their own production costs, together with the so-called profit overheads, but would yield a profit which had a full economic justification” (CRCE 1988:13).

creation of a single large state agency, which it is hoped would result in a more productivity and reduced costs by providing an overall management of strategic planning, sales, materials, logistics, and environmental protection (ibid.).

**Photo 2: Mining and Steel Academy Kraków, 2003**



Source: C. Weis

The restructuring of the Polish steel sector has been heavily linked with EU intervention and its own difficulties of agreeing on capacities levels and employment (Campbell 2002). The Silesian Voivodship accounted for 56.8 per cent of the national output of metal production in 1998, generated in 18 steel mills (Śląskie Voivodship 2000:31). The restructuring of the iron and steel sector began in 1992 with a World Bank loan and was prepared by 30 western steel specialists, independently from the similar programme prepared for the mining industry (Błasiak et al. 1994:72; Campbell 2002:511). As in the coal sector, steel production is plagued with overcapacity, over-employment, huge indebtedness and a lack of profitability (OECD 2002:118). After launching the “Programme for Steel Industry Restructuring” in 1998, efforts accelerated with the aim of



bringing state aids into line with EU rules (OECD 2000:87).<sup>89</sup> The initial target to restructure and privatise the two biggest steel mills *Huta Katowice* and *Huta Sendzimira* (together more than 50 per cent of industry output) by the end of the 1990s failed, triggered by the Russian economic crisis and the deteriorated market environment that followed (ibid.). The initial programme of 1998 was revised and amended in 2001/02 with the aim of creating one large steel holding, *Polskie Huty Stali* (PHS), encompassing the four largest steel producers, three of them in the Silesian Voivodship (OECD 2002:118-119). PHS was finally privatised in 2003/04 (OECD 2004:160), a process that is subject of an in-depth analysis in chapter 5.1.1. Between 1990 and 2001, the average Polish steel capacity was reduced by 8.5 million of tonnes, which represents about 45 per cent of the initial level of capacity (OECD 2002: 155, FN63).

The restructuring waves in the Polish coal and steel industries have created difficult labour relations between management, labour representatives, and the state. In contrast to many statements which suggest strong and resistant trade unions being responsible for the ‘delayed’ privatisation process, Stenning concludes that the common cause of the emerging trade union movement by the late 1980s has been replaced by increasing fragmentation and weakening (Stenning 2003: 775-777). Pickles acknowledges that the restructuring of state-owned companies, which now have to follow cost-benefits rationalities, *might* be capable of sweeping away socialist legacies, but he remains sceptical, suggesting that:

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<sup>89</sup> An agreement between the Republic of Poland and the EU in 2001 allows government subsidises until 2005 in order to reduce employment with active labour market instruments from 40000 to 30000 by 2003 and to cap the steel output at 10 Mio tons per annum (Błazycza et al. 2002:264). In 1990, the iron and steel sector employed 147000 workers in 26 enterprises, cut to 91000 workers in 1998 and 25 enterprises (1999) respectively (OECD 2001:95; Campbell 2002:509). The costs of the steel restructuring programme have been partly financed by the EU with the Phare programme (estimated: Euro 20 Mio), and the total costs between 1999 and 2003 were estimated at PLN 12 billion (roughly 2 billion pounds sterling) (ibid.). Additionally, indirect aid to the steel industry takes the form of tax and social security arrears, loan guarantees etc. The restructuring programme includes mill modernisation, mill re-capitalisation, environmental protection and social packages (Campbell 2002:513).

*“Initial indicators point (...) to a situation of crisis management that generates protective and cautious strategies, little actual technical or organisational restructuring, a severing of formerly paternalistic ties with smaller neighbouring communities, and a careful deepening of strategic alliances with larger municipalities to mobilise support at the national level for state subsidies, guaranteed supplies and protected markets” (Pickles 1998:190).*

This section has shown that the restructuring measures of Polish steel and coal industries reaches far beyond its severe impact on labour markets and relations, but must be seen in broader contexts of national and international interests. The euphemistic term ‘restructuring’ is used by international agencies and advisors to indicate down-sizing and closures of state enterprises, which cannot meet efficiency and profitability targets. But it can be assumed that the EU-15 negotiators followed their own interests through the imposition of unilateral preconditions for Poland accession.

#### 4.1.3 Foreign Direct Investment

Already in the very first phase of the transformation period, foreign investment was identified as a major pillar of privatisation and system change aiming to restructure state-owned companies with capital, technology transfer, and western managerial know-how (OECD 1992a:40). However, the attraction of foreign capital from multinational corporations and the set-up of joint ventures and foreign owned firms proved to be difficult which was seen as an additional reason for the ‘delayed’ privatisation programme alongside inconsistent formal institutions such as the “unstable bureaucracy, unclear ownership status of real estate, uncertainties surrounding tax policies, [and] the mistrustful attitude of extreme political forces” (ibid:43). Pavlínek argues that the role of foreign direct investment (FDI), “considered to be vastly superior to domestic capital in generating such strategic restructuring, leading to a long-term successful survival of domestic companies

and by doing so becoming the ‘driving force in economic development’ has not been critically assessed (Pavlínek 2004:48).

Since the mid of the 1990s, Poland succeeded in attracting a cumulative inflow in FDI of almost \$23 billion by 1998, which represents 14.6 per cent of the GDP (1998) and 40 per cent of all investments to CEE (OECD 2000:35). The largest investments were made in car assembly, food processing, tobacco, financial services, and retail trade (ibid.). By 2002, more than \$45 billion had been invested, although this record – measured on a per capita basis – is significantly weaker than in other CEE countries (OECD 2004:46). The relatively very strong inflow of FDI during the mid of the 1990s has since weakened considerably with a drop of 50 per cent between 2000 and 2002, along with the general difficult economic situation since 1999 (OECD 2004:46+138).

Indeed, the quantitative description of FDI inflows, used as an indicator of successful or unsuccessful transition to a capitalist market economy, does not recognise different types of investment and, in particular, their impact on individual companies, regions and national economies. It has been claimed that multinational companies generate linkages and spillovers with local suppliers, which stimulate higher rates of efficiency, productivity, and innovation (Altomonte/Resmini 2001:3). Utilising a case study of Poland, it is argued that it is possible to find “positive backward and forward linkages accruing from multinationals to domestic firms, and hence stimulating growth once multinationals are established, but not a significant interaction between upstream and downstream domestic firm, a signal that historic ties have been disrupted and (eventually) still need to be reconstructed” (ibid:18).

Bevan et al. note that multinational corporations, which move into transformation economies, are themselves faced with high costs, because of a lack of (tacit) knowledge how to use market mechanisms and sufficient knowledge about potential products,

demand, partners, and competitors (Bevan/Estrin/Meyer 2001:7). They confirm that a functioning formal institutional framework is a significant incentive for multinational corporations to invest in post-socialist countries because of the reduction of transaction costs, but that the market size and geographical location of the host country as well as labour costs are additional important determinants of FDI inflows in CEE (ibid:23; see also Haas/Loboda 1999:399). Accordingly, the international car manufacturers Fiat, Daewoo and GM-Opel invested almost \$4 billion in Poland (by 2000), which represents about 8 per cent of all FDIs and the biggest single industrial sector investment in Poland (Dunin-Wasowicz et al. 2002:11).

Most of the automotive sector investment has taken place in Upper Silesia, where greenfield investments are granted tax incentives, particularly in the special economic zones created for this purpose (Cybula 2004:254; OECD 2004:151). In 1999, 65.6 per cent of employees in this sector were working for internationally controlled corporations which created almost 40000 jobs in 1993-1999, but still did not come close to counterbalancing the radical reduction of employment in the heavy industries (Radosevic et al. 2003:72-74). Despite the fact that investment rate of foreign-owned firms is significantly higher than in domestic enterprises and that their labour productivity is twice the national average, wages are lower than in state-owned companies, although this gap is declining (OECD 2002:33-35). Moreover, certain vulnerabilities are associated with foreign firms, since their local activities are dependent on the world-wide development of their parent companies, as is reflected in the cases of the troubled Italian car manufacturer Fiat and US-American General Motors/ Opel which produce in the Silesian Voivodship.

Following Pavlínek, it is apparent that FDI flows into CEE are sectorally and geographically very uneven and subject of stiff interregional competition (Pavlínek 2004:63). Moreover, the profit-seeking strategies of multinational corporations might not

“necessarily coincide with the long-term economic well-being of host regions and localities” (ibid:63). The transformation of post-socialist economies is highly dependent on foreign capital in terms of multinational investors and international credit and development agencies, who not only intervene, but mainly shape this process.

## **4.2 The Rise of Local and Regional Self-Governance**

In recent work on economic organisation and governance, attention has been increasingly focussed on the region as the nexus for development, growth, and innovation (Cooke et al. 2000). It has been argued that “job creation and growth are not only matters of national policies but are the duty of every governor, mayor, and county or town executive” (Savitch 1998:336). This places more and more pressure on regional and local actors to develop greater capacities for negotiating with, accommodating, and adapting to external forces and investors (Amin/Thrift 1994). Additionally, the new EU accession countries of CEE have to deal with the adaptation of formal institutions on a short-term basis, if they want to absorb EU funds in efficient ways.<sup>90</sup> The establishment of “systems of governance that embrace, enabling and facilitating institutions within the local state and civil society, and bridge the permeable boundaries between them” plays a decisive role in local and regional competitiveness (Hudson 1999:6). Accordingly, this section analyses the efforts of reforming self-government in Poland in order to adapt themselves to the introduction of capitalist economic institutions.

In the second half of the 1990s, the political issues of post-socialist transformation shifted from ‘first generation’ formal institutional change, such as constitution-making and market economy legislation, to ‘second-generation’ issues such as the reform of local and regional

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<sup>90</sup> In the case of pre-accession funds like SAPARD and PHARE (all primarily for local and regional development), Poland could only absorb 43 per cent of the latter in 2000 and failed to access any flow of resources for the former in 2000/01 (Blazycza et al. 2002:272).

self-administration, although the issue of decentralisation was already addressed as a sensitive political topic in Poland in the earliest phase of transformation (Zaucha 1999). The regional question – in particular, the importance of regional social resources and mechanisms to development – has become salient in economic policy debates in post-socialist Poland. In mid-1998 a comprehensive self-government and public administration law was passed which reflected the growing perception of the need for strong regions in accordance with EU norms, in fact a precondition for the reception of structural funds from Brussels (Ferry 2003:1099). This law fundamentally transformed Polish regions by consolidating the existing 49 voivodships (Województwa) into 16 larger ones, and by introducing democratic mechanisms and strategic, policy-making competencies at the voivodship level.

#### 4.2.1 Reform of Regional Self-Government

Until 1<sup>st</sup> January 1999, when the implementation of the Polish Self-Government Law of 1998 was initiated, the sole institutional representative of regions was the voivodship administration (Urząd Wojewódzki or Voivodship's Office). Polish analysts are unanimous in their general evaluation of the voivodship in its pre-1998 form: it was ineffective in stimulating and supporting the development of regional economy and society. Moreover, despite early administrative reforms on a local level in the beginning of the 1990s, by 1998, the regional unit was even more dependent on the centre than before 1989, which has been subject of debates, as Gorzelak suggests.

*"The administrative structure of Poland has not changed since 1989. 49 small and weak regions (voivodships) that were inherited from the previous system have been preserved unchanged. It is a paradox of history that on the wave of democratisation in Poland [...] a process of centralisation has been observed since 1990 [...]. The region became even more strongly subordinated to the central government" (Gorzelak 1998:16-17).*

While a self-government reform was enacted and implemented with the “Local Government Act” in 1990, this did not encompass the voivodships. Voivodships remained essentially agents of the central state apparatus, with the Voivod (the ‘governor’ or préfet) not being democratically elected, but instead appointed by the prime minister in Warsaw. They possessed no policy-making prerogatives, instead fulfilling the role of monitor of central governmental policies. All financial resources were allocated from the central budget, with the large majority of funds earmarked as subsidies for specific social services, giving the voivodships little flexibility in meeting the needs of their specific regions (Piekalkiewicz 1981). After 1990, the only changes made to these general principles were the transfer of some competencies previously belonging to voivodships to local (municipal) self-governments as part of the local government reforms of 1990 (World Bank 1992; Swianiewicz 2003:286).

There is no doubt that the possibilities of voivodships taking independent developmental initiative were politically and institutionally limited. To some extent, the blocking of voivodships was intended by national-level politicians and actors in the post-socialist period, amongst whom the conviction predominated that the voivodships were bastions of conservative political interests tied to the state socialist system, which “triggered misunderstandings and distrust between various components of the voivodship’s community [Katowice Voivodship] and its relations with the national level of governance” (Cybula 2004:272). Regions with a historical legacy of self-governance and autonomy, such as Upper Silesia, were suspected of following self-serving interests or even undermining the nation state (Yoder 2003:280; Nawrocki 1993). Nevertheless, voivodships

using the limited resources available to them, have in some regions actively *tried* to influence the economic trajectories of their regions.<sup>91</sup>

**Map 4: Administrational Boundaries of the Voivodship of Silesia**



Source: Statistical Office in Katowice 2002

<sup>91</sup> Such efforts have been most visible in old industrial regions characterised by extensive socio-economic challenges, such as the former Katowice Voivodship, where the “Regional Contract” (1995) has been negotiated not only between voivodship representatives and the central government, but between different regional actors, although it produced no significant results (Bierwaczek/Zagała 2004:235-237; Majcherkiewicz 2000:280-323).



After the self-government and public administration reforms in 1998, far-reaching changes have been made to the character of institutions representing regions. While the voivod (the head of the Voivodship office) him/herself is still appointed by the government as its regional agent, the previous competencies they possessed in the areas of health, law and order, education, communal services, and regional planning have been eliminated or diminished. Instead, their primary area of activity is in the monitoring of other regional organisations and agencies, among them, those to which their competencies have been transferred on behalf of the central government.<sup>92</sup> The new institution, the elected regional council (*sejmik wojewódzki*, or ‘regional parliament’), appoints the regional board (*zarząd*, or ‘regional government’), headed by the Marshal (‘prime minister’) and his/her administration, the Marshal’s Office (Cybula 2004:293). The Marshal’s Office is the second region-level institution created by the reforms, and is an apparatus of experts and administrative staff of several hundreds of individuals. Under the law, it is recognized *de jure* as the organ responsible for fulfilling regional strategy and policy-making functions.

#### 4.2.2 Contradictions and Short-Comings of Regional Self-Government

The creation of new local and regional institutions such as the Marshal’s Office and its board means a fundamental shift in regional operational profiles. This profile has been transformed from the execution of specific administrative tasks to a vaguely defined strategic role, which are supposed “to lay the foundations of a civic society” (Gorzelak 2001:221). However, with the introduction of the reforms at the start of 1999 a number of serious shortcomings and ambiguities have emerged in the fulfilment of this role by these institutions. Most immediately, the question of their competencies, capacities and the related question of intergovernmental relations, in particular in terms of funding, have

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<sup>92</sup> These include about 2500 local (municipal) self-governments (*gminy*), 315 *powiaty* (or counties, an intermediate organ between municipality and region), plus 65 cities with county status, public, semi-public, and extra-governmental funds designed to administer public funds, health insurance organisations, and the newly created 16 regional self-governments (boards) with their administrations (Marshal’s Office), elected by the *sejmiki wojewódzkie*, the regional council (Gorzelak 2001:224; Swianiewicz 2003:293).

become salient, because the changes also led to a gradual deterioration of local and regional government revenues and their structure (Swianiewicz 2003:291).

**Table 2: Changing Structure of Local Government Revenues (in per cent of total budgets)**

	Municipalities (gminy)				Counties (powiaty)	Regions (voivodships)
	1992	1995	1998	2000	2000	2000
Revenues from own Sources	47.3	40.1	33.5	33.2	6.3	1.3
Shares in Central Taxes	22.2	23.1	24.7	16.5	1.4	14.6
General Purpose Grant	11.7	15.2	25.4	32.8	47.7	37.8
Specific Grants	18.8	21.6	16.4	17.6	43.7	41.4

Source: Swianiewicz 2003:291

The question of financial resources for the operation of regional tasks has become pressing. Under the law of 1998, the Marshal's Office was to be financially self-supporting, receiving a good part of its revenue directly from a set of new region-level taxes. But as the financial structure shows (see table above), voivodships generate only 1.3 per cent of their budgets from own sources (2000), whereby the overall budget of regions remains severely under-financed caused by the reduction of allocated monies to the regions, leaving a region such as the Silesian Voivodship with the same budget as its capital city of Katowice (Cymbrowski 2004:59). The bigger part of the budget is still redistributed by the central government, as was the case before the reforms, which confirms the continued dependency of the regional level.

While the Marshal's Office has the *de jure* regional policy-making function, its autonomy in pursuing this is unclear. The Voivodship Office also has strategy functions within its apparatus and thus there is potential for regular conflict with the Marshal's Office (INT: Kaminski, 12.06.2003). The Voivodship Office is supposed to play an evaluative role with respect to the board and the Marshal Office's policy proposals, but regional co-operation and network-building between these two regional bodies is completely unregulated in the new law. The policies developed at the regional level must be, under the law, affirmed by the central government and the oversight by the Ministry of Interior and Administration,

which has been perceived as a re-centralisation, “not because of bad intention but owing to institutional weakness at the local level” (Blazyca et al. 2002:274).

Another serious problem has been seen in the politicisation of regional development agencies and administrations since the start of regional self-government in 1999. A general perception has arisen that the central government’s appointment of *voivods* and their deputies has been driven solely by political concerns, with little attention to the competency of these individuals in economic policy and development (INT: Górski, 13.06.2004). On the other hand, the Marshal’s Office and the regional council have come to be viewed as a battleground for political influence by representatives of the varying political parties found in them (Bokajlo 2000:155-158). Severe problems of political conflict going beyond the functional tensions between the Offices of the Voivodship and the Marshal’s Office are emerging. In a number of regions such as Silesia, the Voivodship’s Office and Marshal’s Office are in political deadlock due to the prevalence of opposing political options in the one versus the other (Cybula 2004:300-305).

In comparison with other post-socialist European countries, the new territorial organisation and the devolution of authorities and rights to regional and local levels is more far-reaching and comprehensive (Kirchner/Christiansen 1999). However, Poland’s decentralisation has failed to define clear boundaries for the state bureaucracy in the elected regional governments and their administrations. Rather, it has increased the size of public administration as a whole while introducing new competitive dynamics between the *voivod* and the Marshall and their administrations respectively (INT: Jarosz, 15.07.2003). This ambiguity clearly weakens the newly formed institutions, as a public finance expert suggests:

*"The new units of territorial self-government [the regions and districts] are weak, and the central government has not gotten any stronger (...). It seems that the opinion concerning the weakening of public power during this stage of the transformation is justified. The real course of reform has been rather a process of chaotic scattering [of offices and tasks] than of coherent decentralisation" (Gilowska 2000:37).*

It can be said that the reform of local and regional self-government is externally driven by the EU, "the most consistent and influential (...) actor in the process of CEE transition" (Kirchner 1999:209), which aims at political democratisation, the harmonisation between the *acquis communautaire* and de-centralisation policies, and an efficient allocation of structural funds.

#### 4.2.3 Regional Development Strategies in the Śląskie Voivodship

Since the beginning of the transformation process central, regional, and local governments elaborated some relevant programmes of regional economic restructuring, such as the "Katowice Project of Industrial Restructuring" (1990, updated in 1992), and independently from this the "Programme for Regional Economic Policy in Upper Silesia" (1991), which has been criticised for its lack of precision and "highly dubious intellectual qualities" (Błasiak et al. 1994:86).<sup>93</sup> The recent "Development Strategy of the Śląskie Voivodship 2000-2015" (Śląskie Voivodship 2000) can be seen as the first serious effort to initiate a broader discourse about the socio-economic future of the Silesian Voivodship, as the consultation process encompassed local and non-governmental decision makers, entrepreneurs, politicians, and academics (Bierwiazzonek/Zagała 2004:247; Śląskie Voivodship 2000:141-146).

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<sup>93</sup> The earlier regional strategy plans from the beginning of the 90s may be characterised as of the 'emergency type' which has led to frustration and partly to rebellion among the affected population (Szczepński 2001). Similar approaches – concerning concept, implementation, and impact – were undertaken in attempts to deal with coal mining (1991) and iron and steel (1992). Not until there was massive financial support from international bodies could the restructuring of the Upper Silesian heavy industries – in terms of reduction of the workforce and output – be realised. For a short summary of the earlier programmes see Szajnowska-Wysocka (2000).

The current programme follows a language of ‘sustainable development’, which involves economic, social, ecological, and cultural goals. Although these goals are in line with current international strategies of development (‘Agenda 21’), the basic assumptions as well as the applied mechanisms are rooted in a belief in the market as the nexus of modernisation and restructuring, aiming at a “modern and strong Śląskie Voivodship” (Śląskie Voivodship 2000:11). In order to acknowledge the diverse spatial-economic realities of the voivodship, the document distinguishes four separate sub-regional strategies, whereby the analysed core agglomeration of Upper Silesia constitutes the central area with following ‘vision’:

*“It will be an area with a good balance between the functions of civic and economic development; with a restructured economy with a high concentration of services ensuring the high competitive global position of the region; and with well developed relationships with the revalidated urban and rural environment. It will be an area with an efficiently operating internal transport system, it will be accessible by different means of transport from the metropolitan centres of Europe and the world as well as from the civilisation centres of Poland [sic!]. The well developed metropolitan functions will ensure a high competitive position within the country and high attractiveness for external investors (...). It will be a friendly environment to live and work for more than 3 million people” (Śląskie Voivodship 2000:90-91).*

The identified regional strengths reflect a geo-determinist understanding of its technical infrastructure and endowment with natural resources (ibid:67-68). An external modernisation is assumed within branches which are willing and able to invest in the service sector and in new technologies. The internal modernisation describes a process within companies and factories, which supports firm restructuring with new technologies and products, a new strategic position on the market, and the location of new branches of multinational corporations in order to ‘open up’ the voivodship for Europe (ibid:75). A broad space of the document is dedicated to small and medium-sized companies, the ‘icons of neo-liberalism’ (Rainnie et al. 2002:26), which are supposed to counterbalance the loss

of employment in old industrial sectors and increase the regional competitiveness in terms of innovation and new technology (ibid:112). However, the implementation of the “Development Strategy of the Śląskie Voivodship 2000-2015” is highly dependent on national funds from the Ministry of the State Treasury and structural funds of the EU (ibid:123).<sup>94</sup>

### **4.3 Path-Dependencies of Polish Regions**

While the changing nature of formal (regional) institutions has been introduced in the previous sections, the last part of this chapter is dedicated to the untraded interdependencies and informal institutions established by regions for supporting economic restructuring and development. Given the likely persistence of ambiguity and weakness in the regional institutions, this question becomes particularly important. A number of studies have demonstrated an undeniable fact: Polish regions differ strongly in their developmental potentials and trajectories (OECD 2001a; Dunford 2000; Gorzelak 1998; Hausner et al. 1997). There are strong path dependencies characterising Polish regions in terms of tight interlocks between cultural and historical legacies, ongoing social and institutional structures, and economic performance, whereby “Even the best macro-economic policy will not be able to eliminate these problems” (Hausner et al. 1997:190).

In order to move the perspective from Poland’s historical past to its post-socialist present, Gorzelak (1998) suggests dividing the country into a set of differentiated regions with distinctive economic trajectories. These are ‘the leaders’ with high growth rates; old industrial regions, perceived as ‘the losers’; regions with an agricultural economic base,

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<sup>94</sup> The external dependency of the programme implementation is labelled as an ‘opportunity’ to restructure the regional economy. The ‘strategic diagnosis’ identifies eight major ‘weaknesses’, which could be tackled with external support. These weaknesses are a number of stagnant sub-regional cities (outside of the core agglomeration), the low absorption of innovation in old-industries, the high number of poorly educated and low-skilled inhabitants, the ‘underdeveloped’ metropolitan functions in the core agglomeration, the ‘poor privatisation process’, poor research and education infrastructure, the pauperisation of the population, and the ‘underdeveloped’ SME sector (Śląskie Voivodship 2000:71).

mainly in east Poland, labelled as ‘the backward periphery’; and ‘the newcomers’, a set of regions at the western border of Poland, which “have overcome their earlier isolation through collaboration with their more developed neighbours” (Gorzelak 1998:145). The main assumption is that the historical pre-war and socialist legacies of these regions explain to a certain extent their ‘reaction’ during the post-socialist transformation period, because “The heritage of history coupled with varying natural endowments placed the regions of Central [East] Europe in different positions at the beginning of the transformation” (ibid:144). From this perspective, the socialist legacy and the ‘backwardness’ of its mode of accumulation ensures that old industrial regions and their ‘obsolete economic structures’ are losers in the transformation process (ibid:146).

There can be no doubt that historical legacies have a critical impact in determining economic trajectories of regions. But what is often forgotten is that these historical legacies *may* also transform into particular informal institutions *helpful* of economic change, or how Stark and Bruszt put it,

*“In contrast to the imitationists, who see in the present only the absent features of an ideal future, we are interested in what the present holds for the future. In contrast to the involutionists, who see in the present the dead weight of the past, we see that the past can provide institutional resources for change in the present”* (Stark/Bruszt 1998:7).

In order to assess and classify regional efforts at restructuring and institutional change, Hausner et al. (1997) suggest a set of qualitative indicators looking at various institutional aspects, and in particular relational features between organisations and their network properties in eight south-eastern (pre-reform) voivodships. They analyse various local governments, established economic development agencies, business associations, financial organisations, and the largest enterprises. Hausner and his colleagues identify four configurations of institutional set-ups, which emerge in regional restructuring processes

(Hausner et al. 1997:200). These are *atomistic* configurations, in which organisations pursue only formal links without developing real co-operation; *bipolar* configurations are characterised by restructuring processes around two organisational poles; *hierarchic* institutional settings, where a dominant regional centre co-operates with smaller regional centres; and a *network* configuration in which many different organisations with close links exist.

The study undertaken by Hausner and colleagues goes beyond national-level statistical analysis to explain how formal and informal institutions produce economic outcomes. Nevertheless, their work incorporates an analytical shortcoming. The proclamation of fixed institutional settings leads unavoidably to an underlying hypothesis of path-dependent lock-ins, what represents an over-determinism. Only those voivodships fortunate enough to find themselves in a favourable historical position, endowed with dynamic actors and capable organisations will possess the regional assets and network properties, necessary to produce economic development. But this study does not discuss how regions, which have inherited ‘unfavourable’ informal institutions, characterised by mistrust, tensions and a lack of co-operation between different actors, can shift out of their downward spiral into a progressive developmental trajectory.

This observation leads to the question of how regions and places can create the formal and informal institutions necessary for economic development and restructuring. Such an analysis is not primarily interested in the *effects* of institutions and network properties on development, but in the active (re-) construction of social relationships. Such a creative social process might lead to the recombination of inherited informal and newly created institutions capable of opening up an opportunity to support restructuring and reorientation. It is assumed that network building and creative processes of bricolage not only happen in buzz places, but in less favoured places such as in old industrial areas, which are limited by



their inherited and persistent economic structure and their weak regional assets for the time being, but have an interest in creating new opportunities. Having said that, the question arises in what way the internal and external factors of restructuring are linked with each other.

Even Gorzelak provides evidence that in a number of Polish localities, some located in 'loser regions', local governments have autonomously mobilised both local resources and external support, such as foreign investment, to generate economic restructuring (Gorzelak 1998:131-133). Gorzelak associates these local successes with individual self-government leaders who, through their dynamism, expertise, and charisma are able to effect mobilisation. These urban leaders, an "interactionist-individualist type of elite [who] are thinking in terms of entrepreneurship, citizenship, civil society, the market and the public sphere" (Bozóki 2003: 229) are undoubtedly important to understand post-socialist economic change. But it is also important to acknowledge the significance of the wider informal institutional contexts, as well as the many allies and competitors who supported or challenged the leader. Stark/Bruszt suggest a set of distinctive characteristics of informal institutions in economic-political restructuring processes.

*"They are associative (with identifiable network properties) and they are deliberative (with identifiable discursive properties). Successful economic restructuring to create self-sustaining growth and self-maintaining social peace can be achieved neither by a transformative state nor by the self-generating market but through the transformative politics of deliberate associations" (Stark/Bruszt 1998:111).*

There is no doubt that 'successful cases' describe only a very limited number of Polish localities. In addition to isolated cases of dynamism and relative success, there are many others which have not been able to develop themselves out of the stagnation and decline. Additionally, it seems to be difficult to speak of a region as a monolithic, coherent entity except through the use of broad generalisations. Even regions which are seemingly

industrial monocultures such as the Silesian Voivodship and its industrial core of Upper Silesia are complex syntheses of many organising principles characterising their localities, sectors, and organisational networks.

The introduction of Upper Silesia as a case of dramatic economic transformation has shown the extent to which restructuring is dependent on external forces. All relevant regional economic and political topics, which have emerged out of formal institutional change have a strong externality. The interlinked processes of privatisation, restructuring of state-owned industries, foreign investment, but also the reform of self-governance are financially, organisationally and politically dependent on forces outside of the analysed region. However, it can be assumed that regional actors find a peculiar way of dealing with such kind of dependence. From this perspective, the different modes of power, which reach beyond an analysis of external domination, together with the emergence of a supporting set of informal local and regional institutions can be seen to play a decisive role in economic transformation.

This chapter has attempted to introduce a consideration of the developmental capacities embedded in institutional change of Polish regions. Despite the undeniable, strong path-dependencies conditioning regional economic development, it must be doubted whether regions such as Upper Silesia simply demonstrate a tight historical, inevitable lock-in. The analytical incorporation of the hidden potentials and dangers in path-dependent analyses supports a more balanced view of regional development in Central and Eastern Europe. Despite this chapter's focus on traded interdependencies, it has identified particular circumstances for the change of untraded interdependencies in post-socialist contexts. At the same time it can be assumed that Storper's analytical framework, the trinity of organisations, technology, and territory, is applicable on cases of post-socialist and old

industrial areas, because all of these ontological categories play a distinctive and decisive role in economic transformation and restructuring.

It is suggested that the successful development and implementation of regional policies will depend not so much on the effectiveness of the formal institutions, but on the incorporation of regional actors and their untraded interdependencies into the process of economic restructuring. The newly created representative institutions, for institutional, economical, and political reasons, are likely to remain relatively weak for a considerable time to come. The extent to which and the way in which regional actors are incorporated will determine the effectiveness with which they are implemented, and the developmental paths taken by regions. The evidence, even from the more difficult cases such as Upper Silesia, is that regions possess considerable resources and assets to support these developmental efforts. These efforts will have to be worked out through deliberative associations of actors as they pursue the many projects which invent a newly created capitalist regional economy. In the following chapter, these patterns of co-operation and conflict will be analysed with an in-depth case study.

## 5 Doing Business in a Survival Economy

**T**his chapter describes the outcome of interviews conducted among businesses in Upper Silesia in the year 2003. It is not the aim to analyse one or two specific sectors in a comprehensive way, or to deliver an in-depth analysis of the ailing coal and steel industry. The aim is rather to have an overview of the manifold parallel economic developments and their interrelations in a transformative space. The most profound interpretation of the relationship between ‘old’ and ‘new’ economic structures in a given territory comes from evolutionary spatial economics. Here, the notion of ‘diversity’ and ‘variety’ within the ‘genetic pool’ suggests the evolution of new organisational forms between, for example, large state enterprises and small private start-ups (Grabher/Stark 1998:58). In this understanding, the socialist legacy of doing business recombines itself with the evolving capitalist mode of organising markets and production to generate something new. Organisational diversity is seen here as a key approach not only in understanding post-socialist economies, but as a strategy for efficiency and economic progress. While this biologicistic approach focuses in particular on the qualitative composition of spatial economies, less is said about the interrelations between different economic actors and their intra- and interregional connectivity also with political decision makers. The study of economic organisations and their actors does not lead to a ‘distinctive’ geography of enterprises, but “has a valuable role to play in any research agenda concerning the changing geography of production” (Dicken/Thrift 1992:288).

In the following, three sets of economic actors and their interrelations will be presented. First, examples are given from the coal and steel sector, usually characterised as ‘old’, state-owned, technologically backward and declining industries. Second, a few examples from the automotive sector show how global corporations integrate themselves into new capitalist territories and whether or how these corporations redefine these economic spaces.

Third, a number of small and medium sized firms, especially from the IT and new technologies sector, gives evidence for the emergence of local and regional efforts to tackle economic mono-structures and the creation of diversity.

Alongside the question of interrelationships, or rather the traded and untraded interdependencies between the above-mentioned sets of ‘reflexive’ players, other questions also arise. How do these actors perceive the economic and social development of the region in general and their company in particular and how do they define local/regional strengths and weaknesses? Which vision of an economic and social space is employed not only but especially in the wake of Poland’s accession to the EU? What is the identity and peculiarity of the region and in what way do these characterisations hinder or support regional restructuring? This set of questions focuses on the specific routines of the region and informal institutions structuring the redefinition and renegotiation of the former one-dimensional and mono-structured economy.

## **5.1 The State-owned Sector**

The distinction between the state-owned and private sector is to a large extent for analytical purposes only, as mixed ownerships and accelerating privatisation increasingly define the dynamic business environment. From the beginning of the transformation process, state assets were subjects of privatisation, as demanded especially by international advisory panels and credit providers, since this was seen as an important indicator of the successful transition from planned to capitalist economy. While Poland and her shock therapy has been listed as a ‘master pupil’ in this direction since the mid-1990s, the privatisation process ‘delayed’ from the second half of the 1990s of what was one of the biggest chunks of state assets – the Silesian steel and coal industry – appeared to be a complex task for all governments in office since the beginning of the transformation. The

overall picture, drawn by international agencies, researchers and politicians can be characterised as ‘privatisation or dying’. Indeed, many heavy-industrial plants have long been closed and others will follow. In the best cases, the remains undergo a privatisation process with uncertain outcomes. A successful privatisation is only possible if far-reaching restructuring measures – especially dramatic cuts of over-manned workforces – have already been undertaken.

Despite the notion of state-owned companies as inflexible, over-bureaucratic and unable to innovate, this section explores their capacity to survive as dinosaurs in the new capitalist environment. Interestingly, some of these survival strategies have their origins in the socialist planned economy. It might be an exaggeration to state that the survival of some of these companies has *only* been made possible because of these inherited socialist routines, habits and skills. But even so, it is fair enough to stress that at least *despite* these routines success in the capitalist mode of production has been possible in the case of the biggest steel mill in Poland – although external factors have also played a crucial role. While the steel plant case – a show piece of successful privatisation – highlights economic opportunities for heavy industry which had until recently been written-off, the second case offers quite the contrary example. The case of the biggest coal company in Europe provides powerful evidence of the potentially negative impact of over-politicisation and abuse for party and other purposes alongside the socialist heritage of certain routines and relationships. It shows that this can also lead to lock-ins, as these ‘traditions’ sometimes do not operate effectively in the era of the capitalist mode of production and increasing interdependency of regional and national economies. At this point it is important to stress that combinations of socialist and capitalist economic behaviours in (not only) state-owned companies are vital to an understanding of economic transformation in Central- and Eastern Europe defining their new visions and old constraints.

### 5.1.1 The Permanent Transition: Steel Industry

The Polish restructuring of the steel industry is a permanent one and does not start with the year 1989. The General Manager of the biggest steel mill in Poland – *Huta Katowice* (HK) located near the city of Dąbrowa Górnicza in the sub-region of Zagłębie Dąbrowskie<sup>95</sup> – answers the question about the restructuring process in the 1990s: “To understand the restructuring process today, it is necessary to outline the entire history of the steel mill” (INT: Dzienniak, 17.07.2003). When *Huta Katowice* started its hot phase in 1975 (by decree of the First Secretary, Edward Gierek), the steel mill was not only an enormous and costly technical masterpiece, but its location was perceived as innovative, because the existing old mills were located in or near the city centres of the region, for example, in Katowice, Chorzów or Dąbrowa Górnicza itself.<sup>96</sup> The planning of the steel mill as a green field development meant that the production process was better organised and allowed later extensions in comparison to the mushroomed 19<sup>th</sup> century production sites. For the manager, the year 1989 and after is also seen as a dead end, because of substantial de-investment.<sup>97</sup>

*“Then came the year 1989 and all further projects were postponed by the government. The hot rolling mill – advanced technology during that time – had been sold to the former USSR and works now in Magnitogorsk. During the last ten years we have not built anything new at Huta Katowice”* (INT: Dzienniak, 17.07.2003).

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<sup>95</sup> Zagłębie Dąbrowskie is a sub-region situated East of Upper Silesia (adjacent to the city of Katowice) and is functionally linked with it due to the similar endowment of coal resources and related industries. This sub-region has retained a different mental and physical identity until today, with a different history as a Russian territory (Congress Poland) until the end of the First World War. While Zagłębie is usually characterised as ‘red’ and ‘atheist’, Upper Silesia is perceived as the reverse (see INT: Olbrycht, 18.07.2003). While both areas now belong to the same Voivodship of Silesia (since 1998), significant differences are reflected in local and regional elections. For simplifying reasons, when discussing the ‘Silesian’ coal and steel industries in the following, it encompasses the related industries in Zagłębie as well, because of very similar problems and prospects. In continental Europe, the ‘easterness’ of territories usually encompasses a negative connotation of being culturally, politically, and economically backward (Offe 1997:136). This feeling can also be found in the ‘Silesian’ mental perception of Zagłębia Dąbrowskie.

<sup>96</sup> At the north-eastern corner of Map 2, the production site of HK reveals the enormous physical scale.

<sup>97</sup> In some respects this statement recalls the short period after 1945, when the USSR confiscated and dismantled industrial facilities in their influence zones and relocated them to Russia. In west Poland, too, (in the former German areas, but then Polish property) factories and investment goods were dismantled and relocated by the Russians, a handicap for quick post-war economic recovery (Ascherson 1987:149).

The restructuring, or more precisely, downsizing process has been comprehensive and is most apparent: after several rounds the number of employees has fallen from 25000 in 1989 to 4800 in 2003, mainly caused by the outsourcing or closing-down of non-production related facilities, such as transport units, social or health services. Although the planning of new production facilities was frozen after 1989, *Huta Katowice* managed to modernise some of the key technical facilities that then only produced low quality but at the same time expensive semi-finished steel products.

Not surprisingly, the restructuring period is also characterised by new property regimes of the steel plant: since the beginning of 1990s *Huta Katowice*, then still owned by the state (Ministry of the State Treasury), has had to produce under private company law. In 2001, HK was incorporated into *Polskie Huty Stali* (PHS), a conglomerate of four Polish steel mills producing 70 per cent of the national output, about 6 million tons per year.<sup>98</sup> The overall aim of the government was to privatise the whole corporation before Poland's accession to the EU, due to limits of public support for the steel sector under the EU's *acquis communautaire*. In March 2004, after a year of negotiating, the takeover was finalised with the new owner (Poland Business Review, 8 March 2004): the Anglo-Indian *Lakshmi N. Mittal Group* (LNM), now the world's largest steel producer, purchased a 69 per cent majority stake for PLN 4 billion (ca. GBP 600 million) with an option to acquire an additional 25 per cent and promising further investments for the renamed *Ispat Polska Stal* (IPS). The rest of the shares are still held by the state and employees.

While HK had been partly modernised before its completed privatisation, it is clear that the modernisation process could not be completed because of a lack of financial means, despite the fact that this process has been widely seen as a pre-condition for successful

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<sup>98</sup> *Huta Katowice* (Dąbrowa Gornicza), *Huta Sendzimir* (former Huta Im. Lenina, Kraków, the second largest Polish steel mill), *Huta Cedler* (Sosnowiec) and *Huta Florian* (Świętochłowice).



privatisation. Moreover, policies on how to restructure changed rapidly during the transformation process and still evoke unease in the management:

*"You have to keep in mind that at the beginning of the 1990s, the Ministry of Finance and its policy was very strict with its 'shock-therapy'. The main goal was to reduce the inflation substantially [...]; there has been a new approach in industrial policy. They wanted to divide the big companies into smaller units: 'small is beautiful' and 'big is bad'. In 1999, the non-steel divisions have been removed from HK [...]. There is still discussion about further consolidation [...]. In the West has been globalisation, here in Poland we have had de-globalisation" (INT: Dziennik, 17.07.2003).*

## **Size Matters**

While the 1990s were characterised by de-concentration processes in the industry, mainly supported by centre-right governments (Electoral Action Solidarity and Freedom Union), later efforts of restructuring the steel (and coal) sector focused on the opposite, a re-concentration through the establishment of huge holdings, in the case of the coal mining industry, *Kompania Węglowa* ('Coal Holding'), the biggest of its kind in Europe. These seesaw changes in industrial policies tend to be interpreted in a sarcastic way: "After all the years of discussions the prevailing idea how to consolidate this industry is [laughter]: 'A small player never wins' [...] From month to month there are new ideas how to deal with the PHS and how to make money out of it" (INT: Dziennik, 17.07.2003). The early 1990s' industrial policy of post-Solidarność governments was actually the absence of it, best described as laissez-faire style or as the then Polish Minister of Industry Tadeusz Syryjczyk put it: "the best industrial policy is no industrial policy" (quoted in Campbell 2001:503).<sup>99</sup>

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<sup>99</sup> State-intervention is still perceived as something very much connected to the recently overcome socialist regime and thus something to be avoided. In 2001, a long-term study reveals that up to 58 per cent of Poles questioned "believed that state intervention in the economy usually brought more harm than good" (Wiatr 2003:379). In the first transformation period the large steel and coal giants of the south were seen as the last socialist bastions due to above-average pay and privileges received by the heavy industry workers during the socialist regime and rather anti-reformist regional party leaders (Ascherson 1981:268). This national perception of the region outbalances the fact that substantial resistance and strikes were organised in Upper Silesia in the late 1970s and later against the communist governments and the Polish United Workers' Party.

The downgrading process is also reflected in the increase of enormous areas of derelict land, partly contaminated due to the reckless handling of environmental issues over decades. Pre-1989, *Huta Katowice*, including a protection buffer zone, was settled on an area of 2500 hectares. Today it occupies only 1000 hectares of it [1000 hectares = 2471 British acres]. While HK invested in technology aimed at reducing pollution in the 1990s, a good part of its land and the former buffer zone were cut off by the central government to establish a special economic zone for the attraction of 'future industries' through tax exemption. As all of these new companies, mostly from the automotive sector, receive tax relief of more than 50 per cent for a period of 15 years plus additional subsidies, the management of *Huta Katowice* perceives this privilege for adjacent producers as unfair. Without any financial help from the regional or central administration, HK paid the bills for the necessary but costly ecological technology and de-contamination efforts through equity capital and bank loans, while they had to give the land away for free, for neighbours who now profit from good infrastructure, low cost production and political support from all sides. Asked about the ways in which regional economic policies are important for HK, the general manager advised the author to ask this question the voivodship administration, but "Frankly speaking they are not interested in the problems of HK. There is no support from this side" (INT: Dzienniak, 17.07.2003).

*Huta Katowice* is still the biggest employer in the sub-region of Zagłębie Dąbrowskie (the industrial region East of Upper Silesia) and probably the second biggest in the voivodship. The city of Dąbrowa Górnicza receives half of its tax income from the steel mill (INT: Dzienniak, 17.07.2003) and the regional and local decision makers still seem to neglect the former model plant of socialist production. Asked about economic policy responsibilities

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The national Solidarity movement substantially drew its strengths from the mobilisation potential of steel workers and miners of the region. It was incomprehensible for many of them that the post-1989 governments – the newly established Solidarity party AWS – downgraded both sectors in such a radical way, with thousands of workplaces lost (Ascherson 1981:125, 161; Riley/Tkocz 1999:280).

in the regional administration, the general manager of HK admits that he does not know the administrative structure or that this structure is blurred, but he leaves no doubt about his overall assessment of local and regional politics, because “My impression is that these people, on the regional or local level, are only interested in themselves” (INT: Dzienniak, 17.07.2003).

### **Old Survival Strategies**

A good part of today’s business relations in transformation countries is conducted through barter contracts, and in the case of *Huta Katowice* (2003) that amounts to about 15 to 17 per cent of all transactions (ibid.).<sup>100</sup> Typically, this aspect of a ‘parallel economy’ is more associated with post-Soviet states than with EU accession countries and is seen as evidence (besides wage and tax arrears) of the impossibility of restructuring state-owned enterprises (Krueger/Linz 2002:31). Russian state-owned companies in the steel and ferrous industries perform ‘only’ an average share of about 10 per cent of barter in total transactions between the years 1996 and 2001 (ibid:36). Barter can be seen as an indicator of an economy of scarcity where forms of quasi-money transactions are employed when cash is difficult to obtain, for example due to an underdeveloped banking system. The scarcity of equity capital and other liquidities as well as the difficulty of obtaining bank loans leads to a highly constricted capability to restructure a company.

Barter transactions are nothing new in transformation countries, and barter “has not only survived since 1990, but has thrived” (Hamilton 1999:141). In fact, barter was a fundamental aspect and way of doing business in socialist planned economies, not only at the domestic level and between socialist states, but between western and eastern companies, too (Miller 1981). While this non-monetary transaction routine was frequently the only way of doing business and to fulfil the plan, this learnt socialist skill is now being

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<sup>100</sup> Barter means here the non-monetary exchange of goods or services, mostly ranging e.g. from manufacture to semi-manufacture or raw materials.

re-employed to survive in a capitalist environment. In contrast to the socialist era, today's barter is more complex, because a higher number of companies is involved in such transactions. However, this is not an economic routine limited to state-owned firms. On the contrary, HK's management estimates that even more private companies are involved in barter than state-owned firms and that this routine is a common practice in the Polish free market. Moreover, the size of barter as a percentage of the production, is estimated to be much higher for the current economic environment than during the socialist period.

*[...] "Before the Roman Empire existed there was Phoenicia and we do it like they did it: goods for goods; it means barter economy, it still exists [laughter]. We "sell" steel products and get coal, chalk stone or services for it. Sometimes there are up to five companies involved in this barter: traders, middlemen, coal mines and so on. But we have some costs that cannot be part of this exchange, especially wages, city taxes, national taxes and the minister of economy who wants to be paid with money and not with steel products" (INT: Dziennik, 17.07.2003).*

It is noteworthy that barter deals are not only a handicap for restructuring but also at the same time they are often the only way to survive in transformation countries. This survival strategy is a social practice highly dependent on trusted contacts with other business partners. The disadvantages of this non-monetary practice are well known. For example, the high transaction costs in multilateral deals due to large search and different control measures as a result of intransparent transactions are regularly mentioned (Commander/Dolinskaya et al. 2002:276; Krueger/Linz 2002:34). While disadvantages are undeniable, less is said about the ways in which managers try to reduce these high transactions costs through contracts with trusted and long-term barter partners, the exploitation of regional knowledge and proximity advantages. In the case of *Huta Katowice*, most of these barter partners are based in the region and a good part of them had business relationships with the steel mill well before 1989. Asked about the assumed reasons for this regional clustering of barter partners, HK's general manager additionally

notes the region's rich endowment with natural resources and shorter distances and thereby less expensive transport costs.

## **New Visions**

Before 1989, *Huta Katowice* had no business contacts with the West and only produced for the domestic market. This market is still important for the steel mill with a share of about 65 per cent of the whole production. While “there is no money on the Polish market” (INT: Dzienniak, 17.07.2003) which is “not so profitable for HK” (ibid.), the company is forced to look outside Poland to sell its products on the global market. The survival struggle on the domestic market seems to be difficult due to the illiquidity of many players, so the global markets promise better profits and at least clients who are willing to pay their bills in cash. But this international strategy is only realistic if the steel mill is capable to reach certain qualities and standards of their products. During the first restructuring and downsizing programmes, HK managed to invest in the modernisation of semi-finished steel production lines in the 1990s, a difficult undertaking which paid off because the company could qualify itself for the later privatisation process and took its first steps in the stiff competitive markets outside Poland. Meanwhile, the management seems to be convinced about this difficult route between downsizing, modernisation, and privatisation although the pace has been criticised. Moreover, the company is convinced and proud of the high quality of its products and its ability to compete on European and other markets even before Poland's accession to the EU, suggesting that HK was long ago integrated and part of the EU market.

*“The management of Annahütte in Germany [near Salzburg] which manufactures products for the car industry told us that we are their best supplier for semi-finished steels. They even have clients who only order under the condition that HK will supply the input material. And this is the case since the beginning of the 1990s” (INT: Dzienniak, 17.07.2003).*

While the detection of export markets and efficiency gains through the new holding company PHS helped to survive - and brought the holding company back into the black even before complete privatisation<sup>101</sup> - it is clear that the balancing of high debts and a further modernisation of production facilities will only be possible with a major strategic investor. Victims of this further modernisation and restructuring will without doubt be elderly workers who do “not fulfil the requirements set by possible new owners” (INT: Dzienniak, 17.07.2003), leading to a further downsizing of the workforce. Asked about expected resistance from the trade unions, the management of HK gives an unvarnished account of Poland’s labour market and the well-understood rationale of the capitalist mode of production.

*“[...] From the economic point of view it is quite simple. Now you can hire young men who speak fluent Russian, German or English and who are computer-literate. We can hire these skilled people for half of the wage of an old worker, because our unemployment rate is very high in Poland, above 18 per cent, and the wages go down and down. From the economic point of view we have to produce at the lowest possible costs; the oldest worker do not have any chance to keep their jobs. They would have to be sacked” [...] (INT: Dzienniak, 17.07.2003).*

The details of further downsizing of the workforce as well as investments in the (former) PHS holding played a difficult part in the 10-months privatisation proceedings with the new owner LNM Group. While the negotiating power of the Polish government was reduced prior to the accession by EU deadlines, it still managed an acceptable ‘last-minute deal’ with the ‘sultan of steel’ (Business India, 10-23 May 2004) who specialises in the acquisition of state-owned steel mills of former socialist countries and manages meanwhile the biggest steel holding of the world, producing on four continents.<sup>102</sup> While L. Mittal’s

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<sup>101</sup> The provisional result for the PHS group amounts to a net profit of PLN 90 million (ca. GBP 13.8 million) for the year 2003 in comparison to a loss of PLN 800 million (ca. GBP 122.6 million) in 2002 (Poland Business Review, 22 March 2004).

<sup>102</sup> The privatisation contract includes a job guarantee for PHS’s 15000 employees until 2009 while 4500 of them will be offered jobs in PHS-owned companies or early retirement. All of the employees will receive a

merits in restructuring devastated old industries is not undisputed due to a lack of transparency, the future will show whether the Polish steel industry will become a “world-class producer” and a “cornerstone of its [LNM’s] European operations” (L. Mittal quoted in Poland Business Review, 1 and 8 March 2004). Undoubtedly, as one of the largest transactions in Poland ever, the privatisation outcome will affect the entire Polish economy and will have an impact on further privatisation efforts.

The LNM Group is considered to be the most globalised steel corporation, which profited from the aggressive acquisition of cheap ailing steel mills worldwide during a time when the industry suffered from high over-capacity and low steel prices in the 1990s. While this industry was still structured on a national basis, with companies searching for niches and profitable high-value markets, LNM acquired and improved underperforming steel mills in former socialist countries such as the Czech Republic, Romania, Kazakhstan and now Poland. In the meantime, LNM has already emerged as the largest steel producer in Central Eastern Europe whose profitable potential it recognised long ago. Many commentators see a rather bright future for this industry in former socialist countries (e.g. Financial Times, 21 April 2004). After the accession to the EU, the lifting of trade barriers smoothes the way to the West; more EU-funded investments in infrastructure as well as a further extension of the automotive industries in Central East Europe (CEE) and an unquenchable Chinese appetite for steel has led to higher demand levels in steel products and higher prices. In the end, considerable lower labour costs at comparable qualification levels of the workforce guarantee good profits for companies producing in CEE, “definitely one of the

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privatisation bonus between PLN 2500 and 3000 (Agence France Presse, 26 February 2004). The cut will concern administrative workers in particular who constitute about 21 per cent of the whole workforce (Poland Business Review, 3 November 2003). Further parts of the privatisation deal include a deadline for the investment of PLN 2.4 billion (ca. GBP 367.8 million) by the year 2009, and, for example, a new hot rolling mill at former *Huta Im. Lenina* (now *Huta T. Sendzimira*) in Krakow, a continuous steel casting line at *Huta Katowice* as well as further smaller investments for the modernisation of already existing production lines at the remaining two other mills. The larger investments will not start before 2005 (Poland Business Review, 22 March 2004).

best places to make steel in the long term” (M. Mukherjee, president and COO of LNM Group, quoted in *Business India*, 10-23 May 2004:53).

### **International Politics**

One might expect that an industrial sector which has always been controlled by a central administration – and has to this day only weak formal and informal links to local or regional decision makers – would be a national rather than a regional case in the process of privatisation.<sup>103</sup> Privatisation operations on this level happen in secrecy and with the help of high-profile politicians lobbying for national or other interests. *Business India* calls LNM’s Polish acquisition “the most difficult and rewarding of all” (*Business India*, 10-23 May 2004:50). Obviously, the second bidder for PHS - *US Steel* - received high-pressure help not only from the US ambassador in Poland, but even from the president of the United States himself. In the middle of the Iraq war, George W. Bush visited Warsaw and not only persuaded Poland to provide troops for deployment in Iraq but also tried (unsuccessfully) to bring *US Steel* into play (*Independent on Sunday*, 25 May 2003). A similar case of exerting political influence was revealed in 2001, when PM Blair helped Mr. Mittal to acquire a good part of the Romanian steel industry, state-owned *Sidex*, in writing an encouraging letter to the Romanian PM. Unfortunately this support was linked with the steel tycoon’s donation of GBP 125,000 to the Labour Party only two months earlier (*Financial Times*, 1 May 2004).<sup>104</sup> The case of PHS and its privatisation process reveals that even an old industrial state-owned sector is capable of innovation and is of interest for

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<sup>103</sup> Possibly, these local and regional ‘weak ties’ are an advantage in the process of restructuring. The case of the German Ruhr area reveals quite the opposite, a strong regional ‘unholy alliance’ of old industrial companies, trade unions and political decision makers, which until recently led to a lock-in in terms of innovating and restructuring the Ruhr.

<sup>104</sup> This political support is a rather delicate matter, because the LNM Group is indeed a UK-based corporation, but is registered in the Dutch Antilles, a tax free haven for companies of rather dubious character. Beside the fact that LNM does not pay British taxes, it employs fewer than 100 administrative workers at its headquarters in London (of a global workforce of more than 125,000). Thus, the case of lobbying British national interests in the process of privatisation efforts in CEE is not given (*Daily Mail*, 24 October 2003).



global players, although severe cuts of the workforce and other downgrading measures have to be accepted.

While local and regional political decision makers gaze at elusive ‘future industries’ and the emergence of SMEs, a good part of the Polish steel industry located in the Voivodship of Silesia has become ready for connecting to global markets and stiff competition within the last 15 years.<sup>105</sup> A reason for the neglect of this industry by regional politicians is founded in their lack of control over it. Most importantly, the capacity to survive in an economy of severe (capital) scarcity - after 1989 until the finalised privatisation - is based on skills and informal routines acquired during the socialist planned economy – barter – and the strategic search for new markets in the West. This mixed strategy of socialist and capitalist business behaviour ‘adorned the bride’ for its future owner, despite quickly changing economic policies and stiff EU deadlines within the accession process. It can be said that the ‘delay’ of privatisation in this industrial sector – despite enormous pressure of international bodies to accelerate these efforts since the 1990s – was an important precondition for its final success. This time was needed for necessary restructuring measures. Finally, the privatisation was advantaged by a rising worldwide demand for steel products and thus a recently developed interest of global steel corporations in the remains of former socialist model plants. Nevertheless the latest OECD Economic Survey of Poland is still concerned about the pace of privatisation and stresses the overall importance of macro economic aspects in its recommendations:

*“Picking up the pace of privatisation would not only help limit the accumulation of public debt, it would also help raise overall productivity growth. This will require a much more pragmatic and active approach to asset sales [...] that places less emphasis on the sale price and more on the total cost/benefit to society. In*

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<sup>105</sup> Not all steel mills in the Voivodship of Silesia survived these 15 years. The likely next industrial casualty might be *Huta Częstochowa*, if the EU does not accept the restructuring programme - which includes public financial aid - and privatisation negotiations fail with possible investor LNM (Polish Press Agency, 9 March 2004).

*particular, the authorities should reconsider the strategy of consolidating sectors prior to sale in order to create dominant players” (OECD 2004:18).*

The establishment of PHS in the year 2002 as by far the biggest steel producer of Poland has indubitably created a dominant player in this sector. At the same time it is doubtful that the major chunk of the Polish steel industry would have been successfully privatised without this consolidating effort.

### 5.1.2 The Permanent Decline: Coal Industry

While some parts of the Polish steel sector could be restructured for the purpose of privatisation, the Silesian coal industry is undergoing a further dramatic decline. Despite substantial reductions in workforce and output respectively within the last 15 years, large parts of the sector remain unprofitable and highly indebted and are thus subjects of further cuts (OECD 2004:161).<sup>106</sup> While a repeatedly modified governmental plan envisages privatisation efforts after 2006, some of the most unprofitable mines will probably be closed by this time.<sup>107</sup>

In socialist times the fulfilment of the output plan had the highest priority without the demands of profitable production, thus generating excess capacity until today. Beside the socialist coal industry’s task of supplying the domestic steel industry with its main energy source it was also seen as a national and strategic sector which partly secured Poland’s

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<sup>106</sup> The workforce of the Polish mining industry decreased from about 300,000 (1989) to 250,000 (1999), 135,000 (2002) and is intended to reach about 100,000 in 2006. The output has been falling from 173 million tons (1989) to 100 million tons (2002), 93,5 million tons (2003) and has to reach a EU agreed limit of 87 million tons by 2006 (Riley/Tkocz 1998). *Kompania Weglowa* alone has been piling up debts of about PLN 22 billion (2003).

<sup>107</sup> The first draft of the plan “Restructuring of Hard Coal Mining 2003-2006” (July 2002) proposed the closure of seven mines, while the parliament’s approved plan (November 2002) still intended to shut down four mines. After stiff resistance of trade unions and despite the fact that this plan became legally binding, only three mines will be closed by 2006. For this purpose the Polish state will provide a budget of PLN 6.2 billion, 5 billion of this budget will be allocated to personnel measures. Additionally, the Polish state will partly freeze debts of PLN 18 billion and increases KW’s capital equipment mainly with revenues of the privatisation of the Polish Telecom.

independency from Soviet natural resources.<sup>108</sup> After 1989 it turned out that Polish coal could hardly be produced in a profitable way due to the costly mining in large depth and its rather poor quality. On global markets, Silesian coal can only compete with the help of high state subsidies. The restructuring steel industry, forced to look for any possibilities to reduce similar high costs in their production facilities increasingly acquires its energy supply from the world markets and is especially interested in cheap Australian, US-American and South African sources.

In 2003 a new corporation, similar to the *Polish Steel Holding* (PHS), was established, incorporating 70 per cent of Polish coal production. The *Kompania Węglowa* (KW; 'The Coal Company') in Katowice is now the biggest employer in Poland and the biggest European coal company, with a workforce of nearly 77000 (2004), although about 30000 of these jobs will be cut by 2006 according to the governmental restructuring plan, resolutely opposed by trade unions. While PHS was founded with the aim of privatisation and cost efficiency, KW is a conglomerate which has been founded in order to integrate the most unprofitable Polish mines into one company with the purpose of closing down the worst cases by 2006 and to restructure the rest.<sup>109</sup>

The government decided to pass the management of the new holding to bankers, with Jerzy Klima as its chairman who was sacked only after five months in office by the then Minister of Finance, professor Grzegorz Kołodko, in June 2003.<sup>110</sup> Obviously, the decision to place

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<sup>108</sup> Nevertheless, the People's Republic of Poland was highly dependent on foreign oil and iron ore resources, with 80 per cent coming from the USSR (Davies 2001:33).

<sup>109</sup> In 1995, there were still 66 Polish coal mines, 64 in the Katowice region. The remaining 39 hard coal mines (2004) are now organised in three (of former seven) coal companies of which KW is the biggest, incorporating 23 mines mostly in Upper Silesia (**bold**: threatened with closure by 2006): *Bielszowice, Polska-Wirek, Bolesław Smiały, Makoszowy, Szczygłowice, Janina, Silesia, Rydułtowy, Marcel, Jankowice, Halemba, Pokoj, Sosnica, Knurów, Brzeszcze, Piast, Ziemowit, Anna, Chwałowice, ZG Piekary, ZG Bytom II, ZG Bytom III and ZG Centrum*.

<sup>110</sup> Kołodko himself, who was Deputy Prime Minister and Minister of Finance between 1994 and 1997, also resigned a few weeks after he sacked the chairman of KW. The former Marshal of the Silesian Voivodship, J. Olbrycht, characterises J. Klima as an "ardent communist" before 1989 who turned later into a banker (INT: Olbrycht, 18.07.2003). J. Klima probably belongs to the influential 'Ordynacka' association, a political

a group of bankers as the new management of the Coal Company was influenced by the hope of integrating ‘independent’ professionals from “one of the most developed sectors in our economy” (INT: Klima, 15.07.2003) into this former socialist model industry. Asked about the main differences between working for a bank and working for the mining industry, the former chairman spontaneously notes “the lack of trade unions in the banking sector” (ibid.) and later substantiates a different set of mentalities.

*“I see so many differences in mentality [...] comparing banking and mining industry. [...] In particular coalmines, there are certain traditions of co-operation between the management and trade unions. This co-operation includes agreements of certain points and how to achieve this. There are certain ways to do this and these traditions have been cultivated for years and it is very difficult to get away with it” (INT: Klima, 15.07.2003).*

Besides the suggested internal lock-ins in co-operation, which follow certain routines between management and workforce representatives, external pressures and an overall politicisation characterise the continuing existence of central control and the industry’s function as vehicle for party and other interests. While a direct political interference in the day-to-day business of KW is denied, the political influence on a personal level regularly emerges when it comes to financial aspects, for example, to pay off the suppliers of illiquid KW.

*“Politicians think by nature that it is possible to deal with and to execute certain actions by the means of pressing. But this does not work in the economy. To put it nicely: there are a lot of arguments about this on the level of misunderstanding between the politicians and us [...] The politicians were still trying to push something by the means of these certain traditions and forms of co-operation. It was like a never-ending story” (INT: Klima, 15.07.2003).*

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network of former student activists who were organised in the Socialist Union of Polish Students (SZSP) and the Polish Students' Society (ZSP) in the 70s and 80s, with president Kwasniewski as its most prominent member. ‘Ordynacka’ “provides its members [...] with mutual backing and support [...] when times get rough” (Poland Monthly, 10 April 2003) and is closely related to the dissolving post-communist party SLD.

## **Resistance and Privileges**

During socialist times, miners belonged to the most privileged workers in the People's Republic enjoying many other benefits in addition to a well-above-average wage. The so called 'traditions' in this sector are related to the high social and economic status miners experienced in former times, but have been at risk since the beginning of the 1990s. Some of these privileges have still been preserved, like an automatic annual rise of 3 per cent in wages by law, the provision with monetary school subsidies, (even if the miner has no children) or the free delivery of a 'regenerative meal' after a shift, today in form of a coupon.

From an economic perspective "adding certain social dimensions to coal as a physical product" (INT: Klima, 15.07.2003), leads to higher costs per tonne and thus an uncompetitive product on the global markets. From the employer's perspective a "vicious circle gets created" leading to certain mutual dependencies between unions, workers, management, and ministries. Several governments tried to break this vicious circle, but the complexity of negotiations seems to be enormous as the management has to deal with 212 individual trade unions organised in *Kompania Węglowa*. While the management is legally obliged to negotiate with each union individually, the traditionally close relationship between miners and their unions is reflected in the way that miners cash their coupons or cheques in shops owned by trade unions.

*"These traditions created a web of mutual social help by cashing the cheques. It's very difficult to uproot this thinking from the mentality. The worker, their families, the whole society here takes part in this process; it's deeply rooted in the mentality. In the end the extra costs are added to the costs of a ton of coal" (Klima, 15.07.2003).*

The retrenchment process has been met by tough resistance by miners and trade unions respectively, partly accompanied by violent street riots and hunger strikes in Silesia and Warsaw. While the famous mobilisation potential of miners could be channelled against the communist regime and for an improvement of living conditions in 1980s, the workers of yesterday's upheavals are now fighting against governments and politicians who gained their positions sometimes with the help of the miners and who later decided that further downgrading was necessary. Actually, strikers and union activists draw from the fact that in the end the Polish state has to provide them with a reasonable amount of compensation that reduces the negotiation power of the government and employers respectively.

*"Additionally, when we talk about state-owned companies, there is always the prospective of the state who will –in the end- buy out unprofitable working places. It is a totally different situation if you compare it to the private sector (INT: Klima, 15.07.2003).*

### **Old Visions and the Problem of Time Scales**

The government cannot provide KW with the promised financial means to meet its own schedule for the closure of its most unprofitable mines. If in socialist times the company's plan constituted its minimum production levels, today's plan outlines a timetable for the downgrading of this industry. While "the failure of socialism rested precisely in the attempt to organise all economic processes according to a grand design" (Stark 1992:301) there is a danger that this kind of thinking reproduces itself in the restructuring of old industries. The belief in planning processes and in the achievement of complex business objectives in a given time period survives – a planning routine and practical 'socialist' skill - which is still in the minds of managers, referring regularly to the notion of "the good plan" - now transformed into the capitalist context. According to Jerzy Klima the agreed plan was not the best one, not only because the government could not deliver promised financial means on time but because of its schedule, which should be stretched from three

years to “eight or nine years [...] to get this done and to give the children of the coalminers a future in different jobs” (INT: Klima, 15.07.2003), although at the same time he stressed the necessity of fast downsizing.

The most important pressure to reach the plan’s goals is created by Poland’s accession to the EU and Poland’s financial dependency on other transnational organisations such as the World Bank. In comparison to other (former) old industrial areas in western Europe, the Silesian coal industry has only had a short period for its main restructuring and downsizing process. Moreover, the case of the steel industry shows that it was indeed favourable to ‘delay’ privatisation efforts until the new steel boom increased the selling price and especially improved the agreed modalities with the new owner. Despite this new steel boom triggered by the growing of the Chinese economy, KW will hardly profit from this as the necessary premium coking coal – as raw material for the production of coke which is used for steel production – is mainly mined by other Polish coal companies.<sup>111</sup>

**Table 3: Estimated Hard Coal Demand in Poland for the years 2006-2020 [mln tons], Projected Annual GDP: 1.5-2.5% [the higher the GDP the lower the demand!]**

CONSUMER / YEAR	2006	2010	2020
ENERGY PRODUCERS	42.1	38.5	37.3
COKING PLANTS	10.0	9.5	8.0
OTHER	20.5	15.0	8.3
<b>TOTAL</b>	<b>72.6</b>	<b>63.0</b>	<b>53.6</b>

Source: Expert Commission of the German Ministry of Economics, quoted in BFAI, 1 December 2003.

While the domestic demand will substantially decrease within the next 15 years due to technical improvements like energy-saving measures, export of Polish hard coal must be subsidised because of the high cost price. After Poland’s accession to the EU – with more

<sup>111</sup> The two other remaining coal companies *Katowicka Spółka Węglowa* and *Jastrzębska Spółka Węglowa* manage more profitable mines producing higher qualities, in particular premium coking coal for coke production. The latter company produces in Poland more than 90 per cent of this high-value coal product of which 50 per cent is exported. Poland wants to increase its share of global coke production from 12.3 per cent (2000) to 18 per cent within the next years (BFAI, 1 December 2003).

than 90 per cent the biggest export market for Polish coal - the accession treaty explicitly limits this practice. Anyway, the more coal is exported, the more Polish taxes have to be paid for subsidies. The Polish coal industry limits their deficits with high domestic market prices, a situation that recalls the inter-war emergence of influential cartels in this sector. More than sixty years ago the Polish economist Ferdynand Zweig characterised the ‘state-directed’ economy and its export policy between 1936 and 1939 based on cartels, whereby “Many export branches, especially sugar, coal, steel, oil, zinc were based on the price discrimination between internal and export prices, the deficit in export prices being covered by the excess of internal prices” (Zweig 1944, Poland Between the Wars: 104; quoted in Landau/Tomaszewski 1985:124-125). Curiously, this strategy has changed, as the following table reveals, although the high inland prices cannot balance the overall high cost price per ton of hard coal.

**Table 4: Example of Polish Hard Coal Production [mln tons] & Sales [PLN per ton], Jan.-July 2003**

	OUTPUT	TOTAL SALES	IN POLAND	EXPORT
	57.7	54.40	41.20	13.20
SALES PRICE		138.11	151.45	96.24
COST PRICE		142.83		
REVENUE		-4.72		
TOTAL REVENUE (CA. PLN)		-256,934,000		

Source: Expert Commission of the German Ministry of Economics, cited in BFAI, 1 December 2003.

Asked about the prospect of Silesian coalmining in 20 years time, the former chairman of KW sees a rather bright future for the rest of the coal industry and surprisingly links this future with world politics or the deployment of Silesian miners to the long gone pits in western Europe.

*“I believe that the coal mining industry will be radically reduced but will survive, because there is always a need for coal as an energy source. There is a certain trend in the EU connected with the existence of nuclear*



*power stations: the fear of terrorism. As a result, the costs of producing energy are rising. The alternative ways of producing energy will become more and more important and that's why I believe that the role of the coal mining industry will still be significant. In the future we also might find our native Polish coal miners working in the EU coal mining industry, because we have qualified people here" (INT: Klima, 15.07.2003).*

## **Programming Decline**

In the beginning of the transformation process, downsizing programmes focused on 'buy-out' strategies for the former miners, usually a pay-off sum up to Euro 11000 (ca. GBP 7400) as compensation for the loss of labour or early retirement. Unfortunately, these high amounts of capital were mainly spent on consumption and not on the creation of new work places. Until now, the major capital providers for the restructuring process of the Silesian coal industry have been the World Bank and the European Union, who invested several hundred million of Euros aiming at the reduction of social burdens of increasing unemployment in form of long-term loans. In recent years, the EU-funded 'Initiative I & II' programmes for former miners and metallurgists focus additionally on the creation of self-employed workplaces or lump sums for companies who are willing to employ a former worker of the heavy industries.<sup>112</sup> The responsible departmental director of the regional state agency, the Upper Silesia Regional Development Agency (GARR), identifies these kinds of programmes as highly political, with the purpose of calming down workers. In the case of Initiative I & II the time gap between conception of the programme and implementation leads to a situation where the inflexible and over-regulated tools are not sufficiently adapted to the dynamics of social and economic change in Upper Silesia (INT: Giemza, 07.07.2003).

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<sup>112</sup> The Initiative I & II programmes were implemented between 2000 and 2003. After submitting a concept and business plan as well as an approval of the bank the former miner can claim a maximum soft loan of PLN 60000 (ca. GBP 9000). Within three years of running these programmes, a total amount of 511 loans have been given while in the second phase 1/3 of the fund remained untouched (PLN 4 million; ca. GBP 605,000). The loans were usually used for the establishment of small shops, such as internet cafes, groceries, pubs etc. In Initiative I only 60 per cent of the loans were paid back. Companies who are willing to employ a former miner receive PLN 35,000 for the creation of an additional work place (INT: Giemza, 07.07.2003).

While commentators regularly point to the alleged fact that it is not possible to turn a miner into an entrepreneur, the most important tool – consultancy – has been cancelled due to a lack of financial means in the second phase of the Initiative programme (with only 163 contracts), which led to an overall poor quality of applications, a high rejection rate and only few promising investments. Additionally, due to the generally disadvantageous economic situation an increasing amount of contracts has been cancelled because of the client's inability to pay back loans. Apparently, the possible success of turning a former miner into an entrepreneur is linked to the miner's wife's willingness to support the new business, a fact which has not been conceptualised in the programme. The Warsaw based lead organisation responsible for the distribution and supervision of enterprise-related EU funds to regional development agencies, the Polish Agency for Enterprise Development (PARP) has never evaluated the first phase of the Initiative programme nor asked those responsible for implementation in Katowice which problems occurred with the aim of improving the tools (INT: Giemza, 07.07.2003).

### **The Emergence of the Decline-Business**

The restructuring has produced a kind of entrenchment industry which implements politically agreed measures to soften the economic and social free fall of the region. Local and regional development agencies, business incubators and training/re-qualification organisations try to obtain shares of state and EU funds which are provided for the restructuring of the old industries. While the different programmes are conceptualised at EU and national level, the regional agencies responsible for implementation have to carry the burden of executing inadequately adapted measures. The case of the downsizing process of state-owned heavy industries – controlled centrally, but implemented regionally – in particular shows signs of recurring conflict between centre and periphery. The struggle for political control of this process is clearest in the establishment of regional development organisations like the Upper Silesian Regional Development Agency (GARR), a

commercial company which is mainly owned by the regional administration, the Marshall of the voivodship. The private law status of the agency apparently allows easier access to EU funds (INT: Giemza, 07.07.2003). While main decisions such as privatisation or closure of plants are only partly controllable for the regional bodies, at least the thankless implementation of programmes and how to absorb some negative effects of the downgrading process remains in the hand of the region.

An important tool in the development of the region and in the struggle for control over it is played by the support for and emergence of private small and medium sized businesses, a regionally 'owned' instrument which will be outlined in the next chapter. Regional state agencies and their networks - consisting of different educational, consulting or sectoral players - are not only in a frontline between regional and national decision makers, but are as well a tool for economic policies, playing ball for different political interests on the regional level and getting regularly abused also for political reasons (INT: Wojciechowski, 06.06.2003; INT: Górski, 13.06.2003).

The appointment of GARR executives is "not a matter of qualification, but a matter of political connections" (INT: Giemza, 07.07.2003), an estimation which recalls socialist routines when "managers were placed and promoted not for their ability, but for their membership in the Party and their willingness to carry out Party dictates" (DeDee/Frederickson 2004:299) Thus, strategies and policies of the organisation change in line with newly elected regional governments or with the appointment of new regional ministers, a fact which is difficult for the employees who stress the necessity of long-term commitment to regional development instead of the current "cabaret situation" of quickly changing policies and executives (INT: Giemza, 07.07.2003). One further piece of evidence for the incomplete establishment of functioning regional institutions is the legal construction of loss-making GARR, a company acting under private law. While not all

funds for Initiative I & II were spent, the company has to pay taxes for the unused funds - up to 28 per cent per year until 2007 - before GARR will retransfer the rest to PARP, as these funds are treated like income.

## **5.2 The Emerging Private Sector**

Not surprisingly, the Polish private sector's share in the economy (GDP) has been constantly growing from 23.1 per cent (1989), to 58.1 (1995), up to 74.4 (2000) (Maciejka 2001:147; OECD 2002:122). Similarly, after more than fifteen years of restructuring and privatisation efforts nearly 75 per cent (2000) of workers employed in the industrial sector work for private businesses, compared with 85.9 in the manufacturing sector and only 14 per cent in the mining industry (ibid.). Notwithstanding this impressive emergence of the private sector in terms of its share of the gross domestic product, Poland clearly lags behind all other countries in CEE, except Ukraine but including Russia, which accelerated this share in particular during the second half of the 1990s (OECD 2002:125). The main reason for this development has been identified in the relatively slow large-scale privatisation efforts of the 1990s. In terms of small-scale privatisation, Poland has reached the highest index of 4+ by the year 2000, with "standards and performance typical of advanced industrial economies: no state ownership of small enterprises" (ibid.). Alongside these small-scale privatisations, the number of newly established businesses has also grown in Poland, with the highest creation rate of new enterprises in CEE in the second half of the 1990s (Mickiewicz/Radosevic 2001:30).

Poland's economy has attracted numerous multinational corporations and thus has been experiencing huge foreign direct investments since the early 1990s (Tübke 2003; Pavlínek 2004). The changing geographies of production have to be seen in a wider context, where production has been relocated from western to eastern Europe (Hudson 2002b). In

comparison to old industrial areas in western Europe, which has been restructuring and downgrading its industries at least since the end of the 1970s, the old industrial areas in the East have a chance to profit from recent relocation developments, in order to try to counterbalance lost work places in the traditional sector of steel and coal industries (Radosevic/Varblane et al. 2003).

### 5.2.1 Multinational Corporations: The Case of the Automotive Industry

Many of the international carmakers have started to relocate production from the West or to establish new plants and production lines in CEE.<sup>113</sup> The European automobile production system can be seen as organised within networks, qualitatively differentiated in western R&D competencies and Eastern lower value routine production (Hudson 2002b:268). Besides the competitive advantage of lower labour costs in CEE the automotive industry profits from a lack of resistance towards the radical reorganisation of working practices and the enhancement of productivity in the new capitalist territories (ibid.), which “helped redefine ‘best practice’ and productivity norms in Western Europe” (ibid:270), a market with huge overcapacity of production and great financial risks. The majority of automotive sector investment has taken place in the Republic of Slovakia, a country which will produce 900,000 cars by 2008 – the highest share per capita in the world (Financial Times, 27 April 2004). Following Slovakia, Poland – and more precisely the Voivodship of Silesia - is the second biggest destination of automotive-related investments in CEE (Dunin-Wasowicz/ Gorzynski et al. 2002:7-20).

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<sup>113</sup> Relocational efforts of production lines are not always decided because of lower tax levels and cheaper labour in the emerging capitalist territories, as the recent example of *GM Opel*'s production relocation of its ‘Zafira’ model from Ruesselsheim/Germany to Gliwice/Poland shows. While the Polish state purchased (on US credits) 48 F16 pursuit planes from the US-company Lockheed-Martin for US\$ 3.5 billion in 2003, an ‘off-set’ deal agreed by contract US-investments of US\$ 6 billion in Poland until the next years to come. Fulfilling a part of the contract, Lockheed transferred an unknown amount to Detroit-based *GM* with the purpose of relocating some of their German production capacity to Gliwice, an investment of about EURO 800 million (Rzeczpospolita, 21 July 2004).

In this section, the example of GM *Opel's* investment in Poland explores why this global player started producing in CEE. Moreover, examples of the corporation's commitment to the region of Silesia and its linkages to political and economic actors are given. Recently, commentators have pointed to the possibility that international car makers perceive CEE only as a temporary halt on the way to production destinations further in the East, like Ukraine, Russia or the middle Asian states of the former Soviet Union. Thus, this section analyses whether these assumptions are accurate or rather, how these corporations rationalise their locational decisions, in this case choosing Upper Silesia. Further, from the perspective of the region, the example is used to consider the preconditions necessary to attract global investors, an important aspect in assessing the region's potential for competing with FDIs in Europe and elsewhere. Certainly, the question of how the corporation acts in a post-socialist environment and how the management perceives this setting reveals business obstacles inherited from the past or positive regional assets which are peculiar to that location. However, the major question of this section focuses on the spatial-economic effects of establishing foreign investments in a region which is still dominated by its heavy industrial complexes and an emerging but tiny SME sector.

In Poland, most of the automotive-related investments have been in the Voivodship of Silesia, notably *Fiat*, *Isuzu* and American supplier *Delphi* in Tychy and Bielsko-Biała, GM *Opel* in Gliwice, or exhaust producer *Tenneco* in Rybnik.<sup>114</sup> The investment in Gliwice is the biggest single foreign investment in Poland since the beginning of the 1990s and must be seen as a national prestige case. While state-owned *Fabryka Samochodów Osobowych* (FSO; 'The Automobiles Factory') and *Fiat* started their licensed production of the so called 'Polski Fiat' with a joint venture already in the mid of the 1970s – thus *Fiat* looks

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<sup>114</sup> All of the car producers in the region maintain certain levels of co-operation, notably *Opel* and *Fiat* who develop and produce their engines together in the joint venture *Powertrain Motors*, Bielsko-Biała.

back to a rather long period in producing in Poland - GM started to build its first plant in Gliwice as a green field investment in 1996.<sup>115</sup>

The managing director of GM Poland, Romuald Rytwiński, has been working in this sector for more than 25 years, employed by FSO, which produced in Tychy and Warsaw the (legendary) Polski Fiat 125, Poland's first post-war car. Asked about the differences between working in former times for socialist car producers and today for one of the biggest global producers, the manager states that "FSO was only a big conveyor belt" where identification with the company was difficult, as "the only responsibility was to deliver the plan" while "what to produce and prices were given". This attitude and lack of corporate identity stands in contrast with today, where "the biggest difference between *Opel* and FSO is that we see the vision and have a future" (all quoting: INT: Rytwiński, 28.07.2003). Indeed, the production in Gliwice advanced within a few years to be one of GM's best plants worldwide winning the internal annual prize four times in a row as the first plant ever in GM's history, while similarly *Newsweek Polska* nominated *Opel Polska* as the 'Employer of Year 2003'. Its workforce faces "an extremely tough selection process to get a job here", as well as a system of positive sanctions for good results and low hierarchies cause the success of this plant. About 30 per cent of the workers come from the city of Gliwice while the rest originate from adjacent Upper Silesian cities, in total a workforce of 1600.

The manager gives five reasons why GM *Opel* invested in Gliwice and not elsewhere in Poland or Central-Eastern Europe. First, the proposed site is suitable, and perceived as "a nice piece of land". Second, the transport infrastructure with nearby two newly constructed highways provides excellent connections. Third, the site is located within the Katowice Special Economic Zone (KSSE), and thus provides *Opel* with substantial tax concessions.

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<sup>115</sup> The detailed story, how the city of Gliwice acquired this major investment is presented in chapter six from the perspective of the then involved deputy mayor under the aspect of the 'learning city'.

Fourth, The Silesian Technical University of Gliwice is the second biggest of its kind in Poland and has an excellent reputation. Fifth, the government has actively been promoting this region as a possible production location for GM.

Surprisingly, the manager does not mention the most important incentive for international corporations to invest in CEE: the substantially lower wage levels of workers and engineers in comparison to adjacent western counties. A producer based in Poland pays only 10 to 15 per cent of the western wage for a worker (in the case of *Fiat* between PLN 1100 and 1300 per month) and about 20 per cent for a car engineer (INT: Wycisło, 14.07.2003; Economist, 24 July 04; Automotive News Europe, 12 July 04). This location advantage is in contrast clearly formulated by the *Fiat* manager who condenses the regional assets with “well qualified workers who get low wages” (INT: Wycisło, 14.07.2003). It is remarkable, that the GM manager instead gives reasons linked with the specific location and place assets of Gliwice and does not, for example, mention the investment qualities of CEE or Poland.

In the next sections, the five reasons given will be discussed with respect to their meaning for the region and to assess Silesia’s potential to compete for further foreign investment, a main economic policy content and widely seen as a (necessary) indicator for successful regional (and national) development, especially in times of capital scarcity. The acquisition of FDIs can also provide information about the region’s integration into global capital and production flows, an important aspect in terms of the ‘invention of a capitalist region’. Furthermore, the analysis of regional assets (and shortcomings) points also to its capacity to hold international capital providers in a long-term perspective, when competition with countries further East becomes stiffer.<sup>116</sup> The competition over FDIs also provides evidence

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<sup>116</sup> Indeed, the first relocations of automotive related industries have been reported from the Czech Republic, where a supplier moved production to Ukraine. Two sources in Silesia have informed the author that the



about the region's capacity for reforms and the state of political-economic transformation, as transnational corporations tend to invest in areas with functioning institutions.

### **Derelict Land and Green Fields**

First, the “nice piece of land” highlights to the fact that the Voivodship of Silesia or more precisely, the agglomeration of Upper Silesia, is characterised by many areas which are ‘not so nice’. The decline of heavy industries left an enormous amount of derelict land behind, often contaminated with toxic chemicals and heavy metals, places where no company wants to produce, at least not before this industrial heritage is cleaned up at high cost. After 1989, the Polish state retransferred land ownership to the communes, but left them with the task of cleaning-up this derelict land, a task which financially can hardly be dealt with. The agglomeration's endowment with green fields is limited and only existent at its fringes, as in Gliwice.

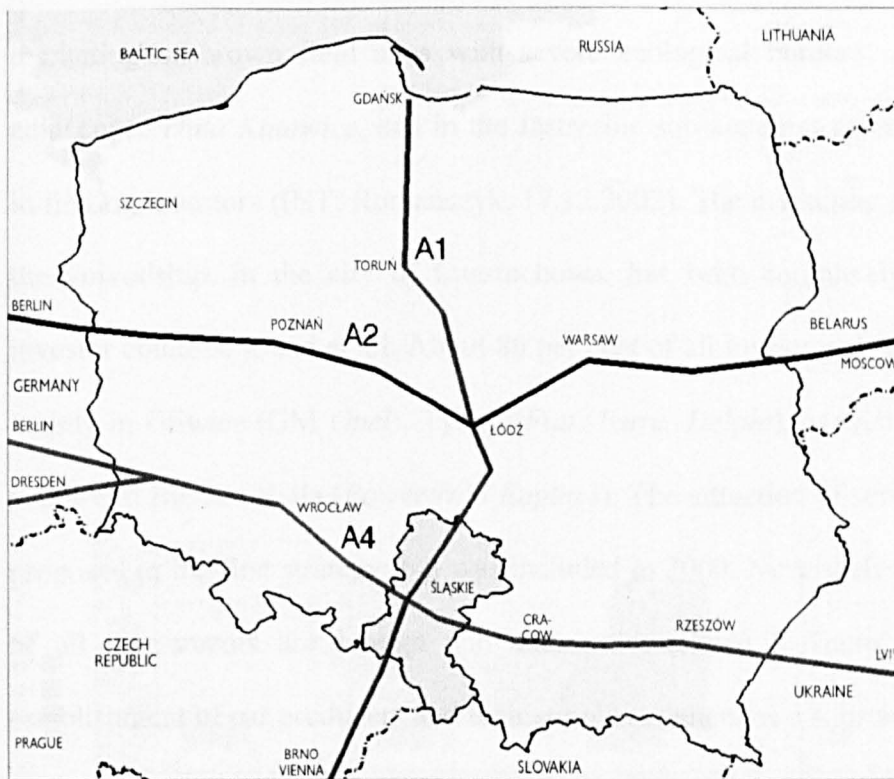
### **Transport and Infrastructure**

In comparison with the rest of Poland, the region's transport infrastructure is satisfactory, but poor in comparison with other adjacent accession countries, with the lowest density of highways in the new Europe of 25 member states (OECD 2004:154). Indeed, GM *Opel* has expressed dissatisfaction with the overall infrastructure of the region, especially with road quality and measurements, beside time-consuming import procedures perceived as the biggest problem of producing in Gliwice (INT: Rytwiński, 28.07.04). Nevertheless, Gliwice's closeness to a NS/WE highway junction, as well as the region's geographical position near the Czech and Slovak Republics, Germany and functionally linked supplier networks strengthens Upper Silesia's locational qualities, especially for car producers aiming for cost efficiency within their supply chains (see map below).

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physical structure of the GM *Opel* plant in Gliwice makes it possible to dismantle the production hall within a fortnight, which has been denied by the general manager (INT: Rytwiński, 28.07.2003).

**Map 5: Planned Motor Highways in Poland**



Source: Śląskie Voivodship 2000:43

Transport and infrastructure issues are broadly addressed in regional development plans such as the “Development Strategy of the Śląskie Voivodship 2000-2015” because “comfortable domestic and international communication [transport] links will be one of the most important factors generating its [the region’s] development” (Śląskie Voivodship 2000:109). Nevertheless, the benefits of huge investments in transport infrastructure as an instrument for regional development are controversial, because there is a danger that scarce public capital will be spent on white elephants instead of investing in other relevant aspects such as education, the support of emergent small and middle sized companies, or in cheaper ‘soft assets’ which distinguish a region from other competitors.

### **Spatial Tax Relief Zones**

The main regional instrument for the acquisition of FDIs is the establishment of spatial tax exemption zones, managed by the *Katowicka Specjalna Strefa Ekonomiczna S.A.* (KSSE) [Katowice Special Economic Zone Co.]. In 1996 until four independently organised sub-

zones were established in six cities of the voivodship, but with differing results.<sup>117</sup> The marketing of brown field sites with severe ecological burdens, namely in Sosnowiec adjacent to *Huta Katowice*, and in the Jastrzębie sub-zone has faced the biggest problems in finding investors (INT: Romańczyk, 17.12.2002). The marketing of a site in the north of the voivodship, in the city of Częstochowa, has been completely stopped because no investor could be found at all. About 80 per cent of all investments are automotive-related, mainly in Gliwice (GM *Opel*), Tychy (*Fiat; Isuzu; Delphi*), as well as the *Opel/Fiat* joint venture in Bielsko Biała (*Powertrain Engines*). The attraction of service industries was not proposed in the first strategy, but was included in 2000. Nevertheless, the overall majority of all investments are foreign and automotive-related.<sup>118</sup> There is no doubt that the establishment of car producers and their suppliers generates a substantial number of jobs in the region, although it is clear that the creation of new jobs cannot in any way balance the reduction of the workforce in old industries (Radosevic et al. 2003:74). The attraction of FDI is only possible if a municipality is capable and willing to invest in new infrastructure, or the clean-up of heavily polluted brown sites. Moreover, these public investments are not matched by an increase in tax income, as companies are exempted until the year 2016. The region is still carrying the economic burden of being mono-structured, and this stigma could even be strengthened because of the danger that a new mono-structured industry, the automotive industry, replaces the old mono-structured regional economy.

### **The Educational Asset**

The Technical University of Gliwice, with more than 30000 students, is regularly presented as an important asset for the attraction of high-technology companies, not only for the city itself. Indeed, in the beginning of *Opel's* investment the idea was to establish

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<sup>117</sup> These sub-zones are Gliwice, Sosnowiec, Tychy and Jastrzębie Zdrój/Żory, encompassing about 30 different sites with more than 1000 ha (KSSE w/o year:14; INT: Romancyk, 17.12.2002).

<sup>118</sup> The exceptions are some Polish producers such as *Lakuna* (chemicals) and the printing house of *Gazeta Wyborcza* (newspaper) as well as a food processor and an American glass producer.

linkages with automotive-related departments of the university with the aim of creating R&D potential between corporations and public organisations like the university (INT: Wojciechowski K., 02.07.04). In fact, 95 per cent of the technical development of GM *Opel's* products is still conducted in Germany while about 60 per cent of the manufacturing process is implemented by engineers employed by the Gliwice plant. The professor for automatics and control theory at Gliwice University states that contacts with *Opel* and *Fiat* would be very desirable for the department and its students, but are actually non-existent ("zero contact"), a fact which contradicts the *Opel* manager's perception of the impact of higher educational organisations for the company's production in this region (INT: Wojciechowski K., 02.07.04). However, graduates with this specialisation cannot find work in Poland, so the department has gradually reformed its curriculum, becoming more and more specialised in computer animation and visual information processing, a field with a much better future (ibid.). Asked about why the city of Gliwice is more successful in attracting corporations than other cities in the country, the academic does not mention the well-known departments and their technical achievements, but the sheer fact that it is "nicer to be in a city with educated people around" (ibid.).

Nevertheless, the impact of higher education facilities for a region's development cannot be denied, even in the case of Silesia, but it seems questionable whether transnational corporations fully draw on this (technical) potential, despite characterising this aspect as important for their locational decision, because "we were looking for young, English-speaking, open-minded, ambitious and very well educated people who are ready to get developed" (INT: Rytwiński, 28.07.2003). Instead, it seems more likely that the Technical University of Gliwice and its graduates potentially creates a well-established network of mutual help and support, a reliable network of political and economic actors from which a

multinational corporation can draw functioning co-operation and contacts (this argument is developed further in Chapter 6).<sup>119</sup>

## **Distanced and Local Networks**

In the mid 1990s the then government actively promoted the region not only with the establishment of tax exemption zones but also with high-profile political support. The overall aim was still the support of the restructuring of the region by the attraction of ‘modern’ investments. The GM executive still maintains “very good contacts” with the central government, such as the ministers of Economy, Finance or Industry on a regular basis, meeting them several times a year. When it comes to regional administration – like the manager of *Huta Katowice* – the knowledge about the new structure after the 1998 self-government reform is rather diffuse, and he mixes up the head of the elected regional administration (the Marshal) with the centrally appointed Voivod, whom he never met because “frankly speaking I don’t care about this contact” (INT: Rytwiński, 28.07.2003). In contrast to this indifferent attitude, good relationships with the city administration are perceived as much more important and were the “overriding fact” why GM invested in this city and not elsewhere. These personal contacts with the mayor and deputy mayor as well as to the whole city government are used to “talk about our business and the conditions to produce here” (ibid.). Similarly, the *Fiat Polska* manager Henryk Wycisło states that although contacts to the regional parliament (the *Sejmik*) do exist, they do not play an important role, “because we have to work”. Instead, the direct contact to the mayor of Tychy, who regularly visits the plant (and helped in setting up the *Fiat* interview), is perceived as much more relevant as *Fiat* managers discuss, for example, the lowering of

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<sup>119</sup> Most of the interviewees in Gliwice and many other political or economic actors of the whole region have studied at the Technical University, e.g. the mayor and deputy mayor of Gliwice, the directors of the Local Development Agency or the sales director of *Tenneco* in Rybnik. All of the comments point to the university as an elite organisation with ‘tradition’, linked to local and regional economic and political leaders. After Poland lost its eastern territories after WWII, the university was completely relocated from the Galician city of L’wow (today L’viv in Ukraine; until 1918 Lemberg in Austria-Hungary) and re-established in Gliwice. This ‘L’wow identity’ is still present in the city of Gliwice, also represented by the local (sic) newspaper ‘L’wow News’.

financial burdens, ecological problems or in what way the company can help the city with small performances in kind (INT: Wycisło, 14.07.04).

In the following sections, further examples are given to explain how transnational corporations (TNCs) are integrated into the region, or rather how they want to be perceived as being integrated, with the help of PR, a tool that is utilised to strengthen the perception of corporations as local producers. Beside these management tools, some examples are outlined of the ways in which transnational automotive corporations are linked with other regional, national or global suppliers, to give an impression of the different scales of flows, not only material, but the flows of technology, knowledge or expertise. The main reasons for this discussion are to assess the capacity of TNCs to adapt to regional or local peculiarities, as well as to post-socialist environments, and their contribution to regional restructuring and the emergence of new industries.

### **Material Flows and Technology**

In the case of GM *Opel*, the corporation's integration into the regional input/output system of suppliers is limited to other western companies who started producing in the region in the 1990s. In contrast to *Fiat*, none of *Opel's* suppliers is a state-owned company. While *Fiat* obtains the car steel plates (like its predecessor FSO since the 1970s) from the (now privatised) steel mill *Huta Sendzimira* (former *Huta Im. Lenina*) in Nowa Huta, *Opel* buys from steel mills in the Ruhr/Germany (INT: Wycisło, 14.07.2003; INT: Rytwiński, 28.07.2003). The GM manager estimates that about 40 per cent of all built-in parts are produced in Poland, and the majority of that share comes from Silesia. This share of 'Polish parts' is substantially higher in the case of *Fiat*, between 50 and 60 per cent. The majority of the car production is exported, in the case of *Fiat* about 70 per cent and GM *Opel* in Gliwice exports 94 per cent to the EU markets (2003). Neither company has its own R&D facilities, but obtains most of the technology from the headquarters in

Ruesselsheim (95 per cent in the case for Opel) or from Torino. In Tychy, the *Fiat* production site is still the same as in the 1970s, with redundant space rented out to suppliers who produce in the same buildings as *Fiat*.<sup>120</sup> Some of the machinery is still from the socialist time, especially the punching machines for the sheet material, which came from East and West German machine tool producers, but which are now outsourced to another company.

## Corporate Cultures

The guidelines of workflow processes as well as management cultures have usually been adapted to follow the traditions of the western headquarters. For example, the main working language in the *Fiat-Tychy* plant is Italian. Similarly, the Anglo-American corporate culture of low (visible) hierarchies is also fully implemented in the *Opel* plant of Gliwice (“we are all the same – there are no differences”).<sup>121</sup> The (Polish) GM manager links these low hierarchies with the obvious success of the plant, but also admits that younger, “open-minded” workers could more easily adapt to this corporate culture. Apparently, a transnational player is less forced to adapt all local or regional routines, but expects that the workforce is willing to adapt to western habits, and thus by-pass negatively perceived inherited (post-) socialist legacies.<sup>122</sup> Especially in the case of *Opel*,

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<sup>120</sup> Since 1993, after the first restructuring wave the *Fiat-Tychy* plant has been reorganised. With a plant workforce of then about 7000 on the site, only about 2500 are now employed by *Fiat* itself (some few hundreds also work at the management headquarters in Bielsko-Biała), the rest of the workforce is now employed by component suppliers, logistics firms, energy, maintenance and service companies. Before 1989, FSO employed between 30000 and 35000 workers in Tychy, Bielsko-Biała, and Warsaw where the Polski Fiat was manually produced to an extent of 80 to 90 per cent. Half of the production line in Bielsko-Biała has been relocated to Tychy due to a lack of expansion space, but the engines are still produced in the *Opel/Fiat* joint venture in Bielsko-Biała, where the *Fiat* management is also based.

<sup>121</sup> This statement is related to the corporation’s culture to provide managers with the same (small) cars that workers drive, without the right of a reserved parking space as well as the fact that all workers and managers are dressed in the same GM uniform.

<sup>122</sup> A comprehensive discussion of the (post-) socialist mindset is presented in the next chapter, focusing on SMEs. Many interviewees stress, for example, that a ‘typical (post-) socialist habit’ is the lack of responsibility, self-initiative, and trust in co-operation, characteristics which are essential in a capitalist society. These inherited mindsets often blend with distinctive regional and local peculiarities. In the case of Silesia, these routines are entirely perceived as positive, such as ‘hard-working’ people with ‘old traditions’ and ‘high moral (religious) values’ etc. In the words of the Warsaw-born GM manager: “I would say their [Silesian’s] labour attitude is extremely good, reliable, hard-working. In Warsaw, I cannot say that there is a culture. Here, they have their own language and they have good habits like beer-drinking in groups, they are more family oriented” (INT: Rytwiński, 28.07.2003).

this strategy seems to be successful. On the other hand it is unclear whether the socialist battle cry of “we are all the same” is more related to the American low-hierarchy model or a new interpretation (and thus adaptation) of the socialist ‘classless society’. It could be summarised that TNCs tend to incorporate positively perceived characteristics of a region, while trying to avoid negative routines.

### **The Desire to Be Local**

A different picture emerges for *Tenneco*, an American exhaust components supplier with few hundred employees based at Rybnik. Locally produced parts play only a subordinate role for the location in Silesia; rather the location is used as a logistics hub for CEE. In this case the closeness to the planned highway crossing A1/A4 (near Gliwice) is also the most important aspect of the location decision, together with the fact that *Tenneco* bought an already existing exhaust plant on the site. *Tenneco* is member of the so-called ‘Plato’ programme, which is organised by the regional administration, the Marshal’s Office and the Regional Development Agency (GARR). Initially, the programme was developed in Belgium and was transferred to Silesia as a result of the region’s partnership with the Limburg region. The idea is to develop SME management skills with the help of ‘godfathers’, mostly managers of bigger companies of the region who participate in regular workshops and share their insights of good management practices.<sup>123</sup>

In contrast to other multinational corporations based in the region, *Tenneco* early recognised membership in this programme as an opportunity to promote the corporation as a locally integrated player and has thus adapted the role of a godfather for the local group in Rybnik. The participating *Tenneco* ‘godfather’ gives three reasons why *Tenneco* is engaged in this programme. First, the participation provides the corporation with a “better understanding of local companies”; second, the supplier uses Plato for a better corporate

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<sup>123</sup> The programme will be discussed in detail in the next chapter, as one of the regional programmes focusing on SMEs.



image within the city, as “they [participating SMEs] see us now in a different way, not only as Americans, but as local people who work and live here” and thirdly, *Tenneco* suggests additionally that “we are learning from them as well, how they deal with problems from a different perspective” (all quoting: INT: Nowak, 24.07.03), although the manager assumes much more knowledge and experience for the corporation itself, in comparison to smaller firms.

While *Tenneco* is participating in regional development programmes, other TNCs implement much less sophisticated PR strategies, although the strategic aims are similar, for example, the “people [should] see that *Opel* cars are locally produced, that *Opel* is one of the Silesian manufacturers”. Asked about how the corporation is integrated into the region and what the corporation does for the city of Gliwice, the GM manager proudly presents his visiting programme for school classes (“we even do not publish our school relationships”) and frankly admits that “maybe after ten years, when kids are grown up and think about the visit of this good plant with good memories, they will turn to be our customers” (INT: Rytwiński, 28.07.2003). *Fiat*, which has been based in the region for a much longer time, has less straightforward PR projects. While the *Fiat* manager stresses the “historically grown” close business relationships not only to the city of Tychy, but also to about 180 Polish small and middle sized companies as suppliers for their car production, the company seems to maintain a positive image at least in the city of Tychy with the sponsoring of sport teams, music festivals, and art exhibitions and even supports the city and the region with the company’s fire brigade, in the case of emergency (INT: Wycisło, 14.07.04).<sup>124</sup>

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<sup>124</sup> The corporation is very popular in Tychy, which is probably the ‘most Italian’ city of Poland. Before 1989 many Polish cities envied the city’s contacts to western (Italian) workers and still today, the most common second language spoken in the city is Italian.

The question arises what producers will do when special tax exemption zones and low wages disappear. There are presently major incentives to produce in CEE. The probability that a producer will relocate production can also be linked to the company's functional and social integration into the location or the region. Moreover, supplier-dependent automotive companies cannot relocate without considering their supply chains, where close co-operation and "quick contacts are absolutely important because of the just-in-time process" (INT: Wycisło, 14.07.04). Another aspect is the important and nearby western sales market and increasingly growing CEE markets. The automotive sector is still investing in CEE, but the competition is not only growing within CEE, but also at the fringes, a fact only few regional actors are aware of. Asked about the probability that GM *Opel* might move further to the East one day, the manager summarises the typical considerations of a globally producing corporation.

*"I think that these fears are completely rubbish. As I said we have at least a 20-years advantage concerning wages. Moreover, companies move to countries where they can sell their products. I tell you, Poland will be the fifth or sixth biggest market in Europe. As a car producer, we have to be here. There is no doubt about this. Talking about Ukraine and Russia: the companies will go there to invest, to produce and to sell their products. But due to the customs barriers, it won't be very easy for them to export them to Poland and other western European countries [sic!]. I am not afraid of this competition, on the contrary I believe that there will be even more investments in the Polish automotive industry from the West. In this industry there is a fact you should know: we have a very well developed supplier network. All these suppliers deliver to companies like VW, Opel, Fiat etc. There is an extremely large manufacturing base here. If you go to other countries where the suppliers are not there, the logistics costs are going to kill you. And I see more and more movement that automotive suppliers are investing here. Did you know that the majority of car engines produced in Europe come from Central European plants?" (INT: Rytwiński, 28.07.2003).*

Concerning the wage advantage, Mr Rytwiński refers to the long period of adjustment expected to reach western levels, similar to the GDP level – it took about 20 years in Spain to reach 80 per cent of the EU average level after the country joined the EU. "There is

neither good, nor bad – there are pros and cons”; in the case of a consumer related manufacturer, higher wages are also desirable, as domestic customers will buy more products. On the other hand, adjacent countries like the Czech Republic and Slovakia have lower wages than Poland, a competitive aspect that is perceived as a possible burden for the attraction of further investments.

Besides these strategic, more European-oriented considerations the GM manager is well aware of specific regional implications of producing and selling in an old industrial region and the linkages between old and new industries. On the one hand the executive recognises the need of restructuring, the decline of old industries, that “helped the environment”, and especially the attraction of investments in ‘modern’ industries, a task that is not sufficiently “pushed by the government”. On the other, “when 30000 coalminers get laid off, we see immediately how the sales of cars decrease” (INT: Rytwiński, 28.07.2003), even though the export share is nearly 95 per cent.

From the perspective of the manager the shrinking of the old industries and the parallel emergence of new industries, with opposed but connected waves of development, causes a certain low level of confidence which directly influences the overall economic atmosphere of the region. These ‘low levels of confidence’ have different impacts locally. For example, the manager recognises a kind of ‘awakening atmosphere’ in Gliwice caused by the GM investment, new housing projects, the highway junction and the perception that Gliwice has an important additional asset, the existence of “a lot of different cultures”, also stemming from the historical German influence until 1945. Despite the fact that the city is still a mining city (with at least one of the mines being threatened with closure), it apparently has a completely different image to those of the adjacent cities of Chorzów and Bytom, which are similarly structured mining cities, but are like the old industries “in a process of downgrading” (ibid.) without having an alternative vision.

In the end, it is the size of the comparatively large Polish market, which balances other disadvantages such as higher wages (than other CEE countries), poorer infrastructure or higher tax levels. From this perspective, it is no coincidence that most of the foreign investors are consumer-based industries. Beside the automotive sector, the biggest European retailers have expanded quickly in the country, with Silesia and its huge population as a main destination of interest. The question arises whether these kind of investments are desirable for the region, in terms of future-oriented 'quality' investments which support the restructuring of the region and create additional high-skill workplaces. In an article addressed to US managers, the authors link Poland's large market with its relatively high cultural stability and summarise Poland's comparative advantage as follows:

*"Poland's main global advantage is its 38.6 million consumers who are 98% Polish, 90% Roman Catholic, and 98% literate, making it one of the most ethnically, religiously, and linguistically homogenous markets in the world. Because Poland is less likely to experience either religious or ethnic division, it offers a long-term market stability that often is questionable in other emerging economies" (DeDee/Frederickson 2004:298).*

### 5.2.2 Small and Medium-Sized Companies

Already in the mid 1990s (1996) Polish small and middle sized companies had an aggregate share of employment of more than 63 per cent and contributed about 65 per cent to the GDP in 1999, although this aggregate share of the private sector is not enough to determine the outcome of transformation (Winiecki 2003:8,11). The emergence of SMEs in transition economies not only has a strong influence on the economic performance, but they have also been described as the "engines of economic activity" (ibid.). The overall majority of Polish SMEs (maximum number of employees 249) is domestic owned whereas "the gap between the locally- and foreign-owned corporates remains significant in

terms of quality of management, corporate governance as well as access to finance and technology” (EBRD 2004a:20).

In the Voivodship of Silesia, the share of SMEs as a part of the overall economic activity is lower in comparison to other Polish regions, which has been linked to the dominance of large corporate entities, although the proportion is getting closer to the national average over the years (Cybula 1998; 2004:253). The ‘problem of diversity’ is addressed by regional and local bodies with the help of regional development policies. Already in 1990, the “Katowice Plan for Industrial Restructuring” acknowledged the role of SMEs, “predestined for innovation-development activities directed towards speeding-up technological and product assortment changes in the traditional industries and for the creation of high-tech industries” (Błasiak et al. 1994:74).<sup>125</sup> Also the latest “Development Strategy of the Śląskie Voivodship 2000-2015” earmarks a decisive role for SMEs in the economic restructuring of the whole region, because SMEs “will replace the jobs lost as a result of restructuring of the traditional sectors of the economy” (Śląskie Voivodship 2000:113).<sup>126</sup>

Before implemented projects and programmes are discussed, the following section tries to summarise the main problems of small and middle-sized companies from the perspective of their managers and other actors involved in the support of these companies. Again, it is not intended to present a detailed picture of one or two industrial sectors, but rather to outline typical obstacles for smaller companies in doing business in a survival economy,

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<sup>125</sup> The ‘plan’ was addressed towards the old Voivodship of Katowice, more or less congruent with the industrial core of the region, the *Górnośląski Okręg Przemysłowy* (GOP) [Upper Silesian Industrial Area].

<sup>126</sup> The improvement of “Innovative Potential and Competitiveness of the Economy” is one of six ‘priority areas’ in the Development Strategy and includes small and medium-sized enterprises. This ‘priority area’ again has five ‘strategic goals’, whereas one of these goals is solely dedicated to SMEs. The cited ‘strategic goal’ has five ‘action targets’: (1) “to support the development of handicraft,” (2) “to co-ordinate the activities promoting the mobilisation of small and medium sized enterprises,” (3) to create SME development infrastructure,” (4) to support the SME sector in obtaining manufacturing licenses,” (5) to create an integrated system of supporting the SME’s in the area of modern management techniques, marketing and financing” (Śląskie Voivodship 2000:112-115).

which is characterised by old industrial complexes and a general scarcity of capital. In doing so, it is assumed that smaller companies behave significant differently in this emerging capitalist territory and that the economic-spatial perception of these companies is distinguishable from bigger players. Information about these 'sets of economic spatialities' not only discloses the shortcomings of policies being implemented but could contribute to an geographical understanding of how planned economies transform to capitalist spaces – and what kind of (not only spatial) routines are necessary to survive this 'transformation'. Beside the abovementioned handicaps of poorer management skills or the well-known fact that SMEs are faced with costly and difficult access to (new) technology, this section tries additionally to emphasise the acquisition and maintenance processes of 'knowledge' in general. It is assumed in particular that tacit knowledge plays a significant different role in survival or post-communist economies than in established 'successful' regions of the West.

The notion of the survival economy applies particularly to smaller businesses. In the following, some aspects of 'scarcity' will be analysed in a more detailed way. The aim of this section is not to reproduce the notion of 'backwardness' of the Polish economy, "the lack of specific features characteristic of a modernized state or economy of a Western type" (Wydra 2000:83).<sup>127</sup> Neither is it the intention to point to the frequently lamented lack of the Weberianian charismatic economic (and political) leader who rather tends to follow an unconventional vision than to imitate successful blueprints of the past (Polityka, 13 November 1999). Rather it is intended to point to cultural legacies, "patterns (scenarios) of behavior or thought that are transmitted from the past and enacted in the present" (Kubik 2003:318). These legacies characterise the 'doing business in a survival economy' and point to typical 'problems' and routines of smaller firms which could be either helpful or less helpful in supporting the restructuring of a former socialist and still old industrial region. Moreover, the intention is here to present examples of how smaller firms operate in

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<sup>127</sup> Until today, the expression 'Polnische Wirtschaft' [Polish Economy] is used in the German language and describes a badly organised process or all kinds of chaotic state of affairs (Krzemiński 2000).

a transitional economy and how they survive without well established political networks (like state-owned companies) or the endowment of sufficient capital (like TNCs), a fact which leads to the question of different levels of economic and political power structures in transformation economies.

### **The Lack of Confidence**

Frequently, managers of SMEs are described as ‘closed’, unwilling to co-operate and solely engaged in solving business troubles and their “fight to exist” (INT: Łobzowska, 23.07.2003). A director of the Regional Chamber of Commerce and Industry (RIG) – the largest in the region with more than 400 members, most of them SMEs<sup>128</sup> - even characterises small and middle sized companies as “claustrophobic” and directly links this psychological finding with experiences in the socialist system where “everything was arranged” and the ‘protection’ of the state omnipresent. Doing business in the socialist system was a matter of “mutual security” and the “first priority was to secure yourself, and not take risks” as well as “focusing on details” caused by the complexity of fulfilling the centrally imposed company’s plan (INT: Łobzowska, 23.07.2003). Additionally, the president of RIG, T. Donocik, quotes a “tradition of being unfair” in Polish society in general and in particular in business co-operations that channels itself in a “tradition of lying and easy solutions” (INT: Donocik, 28.07.2003), again linked with the socialist legacy and inscribed in the (colloquial) Polish verb *kombinować*.<sup>129</sup> In the director’s view, these socialist routines led to a specific human character, self-reflexively described by her as the *homo sovieticus* who is engaged in transfiguring the past while thinking about the good old time of socialist cosiness. While this period is definitely over, the routines of the past survive to this day and are confronted with different modes of production, new formal

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<sup>128</sup> About 95 per cent of RIG’s members are SMEs, the rest are large state-owned or former state-owned companies, such as *Kompania Węglowa* (see chapter 5.1.2) or the largest Polish coal trader *Weglox* in Katowice (INT: Donocik, 28.07.2003; INT: Łobzowska, 23.07.2003).

<sup>129</sup> *Kombinować* describes an individual, ‘non-official’ action (in particular illegal or semi-illegal) to ‘solve problems’ of all sorts and is frequently associated with corruption of all sorts (INT: Olbrycht, 18.07.2003).

institutions, new sets of actors and an overall dynamic process of economic and social change. The question is again which sets of old routines are surviving in the 'new era' and do they have a potential to transform and restructure regional economies. Clearly, in the case of SMEs these old routines are perceived as an obstacle in capitalist markets where the learning process of managers is compared with "springing into a swimming pool without water" (INT: Łobzowska, 23.07.2003).

Thus, the regional chamber tries to break with these learned routines and to increasing confidence among smaller businesses in co-assisting the organisation and implementation of the Plato programme (see also chapter 5.2.1). In the Katowice Plato group, the 'godfather' is a manager of the large *Pascal Group*, engaged in hypermarket property developing, but the members of the group have a "different language than big companies, like between poor and rich people" and leads frequently to a self-estimation of being powerless (INT: Łobzowska, 23.07.2003). Besides a lack of communicational skills, the chamber's director points to the "narrow horizon" of SMEs in comparison to large corporations, which have a "long-term thinking, strategies and perspectives". When the Plato group was established the most important point was to generate discussions and to break the silence among the businessmen (topics are regulations, taxes, management skills etc.), a target which sounds simple to meet but could only be reached through psychological means of informality, such as the rule for all participants to call the members by their first name (a quite 'un-Polish' approach) or the organisation of informal gatherings afterwards. The outcome of this group is described as successful because the members are "more open now" and "started to talk and I cannot stop them" (INT: Łobzowska, 23.07.2003). Moreover, some of the members have begun to co-operate on a business level, a fact that points to the achievement of a "certain level of trust, if you start to speak about problems".



In the end, whether these gentle efforts to guide vulnerable Silesian businessmen and women through the harsh realities of capitalist competition will succeed is unclear. But the chamber's director leaves no doubt that the second shock-therapy – Poland's accession to the EU – will sweep aside many members of this threatened species ("I am afraid they are in danger"): "New legislation and increasing competition will force them to modernise and to reach European standards" but many of these firms "do not change or develop new products because of a lack of risk taking" (INT: Łobzowska, 23.07.2003).

The mission of the chamber is to support and lobby for the interests of small and middle-sized companies not only in the Silesian region, but also in the political world of Warsaw. The strategy is based on close co-operation with foreign chambers of commerce and industry, in particular with the Chamber of Industry and Trade (IHK) Essen/Germany, which has been training staff from the very beginning in 1990 and organises seminars and mutual visits to today. This international strategy of the chamber is perceived as crucial and underlines the fact that the chamber is a 'learning organisation', which passes its gained knowledge on to members. Furthermore, the chamber frequently organises promotional national and 'foreign missions' aimed in particular at their larger members who are interested in expanding their business activities to export markets. In this way the organisation tries to open up the region for external ideas and business relations, becoming an actor of the 'regional world', connecting different scales and a motor of the restructuring process in the region.

The president of RIG, Tadeusz Donocik, who is a trained lawyer and thus "had no ideas about economics" when he founded a still existing private management school in 1988 (INT: Donocik, 28.07.2003) is besides his associational work in Katowice also vice-president of the Polish chamber of commerce in Warsaw and owner of a firm producing aluminium profiles. However, he perceives his associational work as poorly connected

with the political players of the region and the city of Katowice. In the latter case, Donocik criticises the one-dimensional economic strategy of the city that aims at attracting investment by extending the local infrastructure, a strategy “we don’t think will work out” and instead points to innovative ideas which have been more quickly absorbed in cities such as Poznań or Gdańsk. At the regional level, he stresses the relatively short time since 1999 when the elected bodies gained responsibility for regional economic policies, but stresses the continuing lack of efficiency and a tendency to over-formalise contacts or even to get “overlooked”, probably because of political differences.<sup>130</sup> Donocik stresses that co-operation with the former Marshal Olbrycht (post-Solidarity) was much easier and informal and also that Olbrycht “was active in representing the region and raising its prestige” at an EU level. Today, in terms of concepts and ideas, “the most active is the local sphere” (INT: Donocik, 28.07.2003), cities like Gliwice and Tychy, which actively shape the restructuring process of the whole region by supporting the interests of small and middle-sized companies, a policy which is neglected by the central state administration which only spends 2 to 4 per cent of its “economic help” on private businesses, while the rest is given to state-owned companies as subsidies and other financial support.

The following sections are based on interviews conducted with SMEs which participate in RIS-Silesia [Regional Innovation Strategy Silesia], an EU co-funded regional project, set up in the Voivodship of Silesia in 2002. The analysed project is part of the Innovating Regions in Europe (IRE) network, established in 1994, as a joint initiative of the EU Commission’s Enterprise and Regional Policy General Directorates, funded by the Innovation and SMEs Programme of the Fifth Framework Programme and the Innovative Actions Programme of the European Regional Development Fund (ERDF). The IRE network is organised as a “platform for the on-going exchange of good practice between

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<sup>130</sup> The current Voivod, like the Marshal, is a member of the centre-left party SLD. Tadeusz Donocik was vice-minister of the Ministry of Economics during PM Buzek’s centre-right legislative period in the second half of the 1990s.

these regions, and for collaboration in the development and operation of transregional innovation policies and schemes” (IRC-IRE 2002:5). Since the early 1990s more than 100 European regions have participated in projects linked to the Regional Innovation Strategy “aimed to strengthen regional capacity to capitalise on new knowledge and new technologies” (ibid:6) with ‘tailor-made’ strategies. In 2001/02, 16 RIS projects in 20 regions -including RIS-Silesia - have been launched in the accession countries (except Lithuania), the so-called RIS-NAC projects (RIS-Newly Associated Countries), which are ‘mentored’ and ‘trained’ by ‘experienced’ EU regions, in the case of Silesia by the French region Nord-Pas de Calais and the Dutch Limburg region.<sup>131</sup> RIS-NAC projects are seen as a major tool for innovating regions in CEE, because they “lack [...] communities of innovative SMEs which, like in the [old] EU, carry out much of this diffusion” (IRC-IRE 2002b:7).

In all RIS-NAC projects, the first step is to formulate an innovation strategy for the region. In the Silesian Voivodship, this strategy was developed between March 2002 and May 2003 and was finally adopted by the regional parliament in August 2003 as the “Innovation Strategy of the Silesia Voivodship for 2003-2013” (IRC-IRE 2004b:10-11). The Strategy is the result of the input of more than 600 organisations and summarises work undertaken in workshops, seminars and conferences. Besides SMEs, (regional) state agencies, municipalities and higher education facilities also participate in RIS-Silesia which is seen as the main regional development tool by the Vice Marshal (INT: Jarosz, 15/16.07.2003) and includes nearly the whole regional development infrastructure of Silesia.<sup>132</sup>

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<sup>131</sup> Beside this geographical extension, the IRE network also established thematic networks, which bring together a number of regions with common interests, including at least one from CEE. The thematic network includes topics such as ‘knowledge management’, ‘innovation culture’, ‘R&D’, ‘technology transfer’, ‘supply chain’ and 19 other topics (IRC-IRE 2004).

<sup>132</sup> Besides the ‘mentors’, the regions of Limburg and Nord Pas de Calais, following Silesian organisations are involved in the consortium of RIS-Silesia, with different, sometimes overlapping tasks (in brackets): some departments of the Marshal’s Office (supervision, organisation), GARR (direct contacts with SMEs), GAPP (direct contacts with organisations), RIG, ICHPW etc. The Steering Committee is headed by the Marshal.

One chapter of the Strategy concerns the implementation system, including a co-ordination and management unit – the Steering Committee – as well as nine regional groups and two implementing programmes. More than 200 individuals are organised in regional groups, which work along different topics. As a next step, the first “Implementing Programme 2004-2008” will be conducted, which defines nine priorities and includes concrete actions for the participants, “an empowering impact on the organisations, confronting them with key questions on how and for whom projects should be prepared” (IRC-IRE 2004b:10) and to tackle in particular “a lack of constructive co-operation” in Silesia (ibid:11) and the perceived overall poor management of local development actions in Central East European countries (Radosevic 2002:91).

The project manager of RIS-Silesia, the Belgian Luk Palmen from the Limburg region, characterises the fabric of Silesian companies as “10 per cent innovative, 30 per cent closed/stagnating and the rest as in between” (INT: Palmen, 27.06.2003). For him, the main problems of the region are a lack of competition, and trust between companies as well as a lack of risk taking by entrepreneurs (ibid.). The “neutral outsider” who “helps to focus on economic and not political questions of the region” (INT: Waluga, 11.07.2003), perceives the ‘closeness’ of Silesian SMEs not as a legacy of socialism, but connects it to the current “unstable economic situation, the lack of planning security, and stable laws”, all attributes of a “survival economy” (INT: Palmen, 27.06.2003), where bills are not paid by business partners. Palmen describes the first step of RIS-Silesia (motto: ‘imagination creates reality’) as “awareness building”, where “we are focusing on systems and not on structures”, with the simple task to bring possible stakeholders together through “learning by meeting”, which is supposed to raise the level of trust and interaction between companies and organisations. Besides a critical evaluation of few participants of RIS-Silesia, the following sections focus on some of the abovementioned problems of SMEs in the region from the perspective of the firms.

The Managing Director and co-owner of *Ispik* in Gliwice, a company with about 20 employees that develops and implements spatial and cadastral systems for municipalities, has been a member of one of the regional and thematic groups of RIS-Silesia (and a second programme called Prelude) since its inception. The niche market of cadastral systems forces the company to look for “non-standard ways of doing business” (INT: Sambura/Wesłowska-Tannenberg, 02.06.2003), and RIS-Silesia is exactly that, where he has the chance to meet potential customers, in particular decision makers from the bigger cities of the region. While the cities of the region do not have the financial resources to invest in state-of-the-art cadastral systems, RIS-Silesia is perceived as an opportunity because the project has direct links to EU-funds. Despite the fact that his thematic group is directly engaged in his core business (cadastral systems), the outcome of RIS-Silesia is so far seen by him in a rather negative way, because “during this period nothing really happened and we have not heard about any money, which came that way” (INT: Sambura/ Wesłowska-Tannenberg, 02.06.2003). The initial idea was that interested parties, such as SMEs and public administrations, would meet through the thematic group and develop an idea and a project to apply for EU-funds, which could be used for the modernisation of local and regional cadastral systems. Asked about the reason for this failure the manager, who lived more than 15 years in Australia before he came back to Poland in the 1990s, leaves no doubt about the quality of RIS-Silesia and the actors who are involved.

*“The group of people in the voivodship, in the Marshall Office, who are in charge of RIS-Silesia and Prelude are only small bureaucrats. These people have no business experience and no business vision or feeling [...] and a lot of fears. They look to the problem from the bureaucrat position; they are not actively looking for us. I think they are trying to do something because somebody asked them to do something. I think we have a lot of lost opportunities in these programmes. These programmes should be run much more actively” (INT: Sambura/ Wesłowska-Tannenberg, 02.06.2003).*

Certainly, *Ispik* is quite an unusual Silesian SME and belongs to that group of businesses, which are classified as ‘innovative’ by the RIS project leader Luk Palmen. Due to the managing director’s experience in Australia, the firm has been adopting ‘western style’ management practices and perceives co-operation between SMEs not only as important, but also as crucial in its business. Apparently, the cautious ‘awareness building’ and catchy ‘imagination creates reality’ strategy of RIS-Silesia is not addressed to firms like *Ispik*, which has long internalised aspects of mutual trust, innovation and the meaning of business relations. The question arises here, whether it is sensible to concentrate on companies, which are ‘closed/stagnating’ to address regional innovation ideas. Instead, the few proactive SMEs should rather be key participants in projects like RIS than to vanish in the mass of average firms. The critique of the general manager should be taken quite seriously, in particular because the firm is specialised and experienced in co-operating with public administrations, an aspect which will be further developed in the next section regarding public-private-partnerships.

The next two sections give examples and evidence of a lack of sufficient formal institutions – the banking sector and private-public-partnerships, which are not addressed in projects like RIS-Silesia, but perceived as main handicaps for business relations and innovation efforts by the interviewed companies.

### **The Lack of Capital**

All political and economic actors in the region (except TNCs) are faced with a lack of capital, but SMEs in particular hardly have a chance to sufficiently invest in their businesses, which is important for the development of indigenous (product) innovation. The main reason for this is the fact of extremely high interest rates for bank loans (usually around 20 per cent per annum) and the sheer impossibility of accessing capital caused by the bank’s perceived high risk in lending money to those kinds of businesses, even when

the decision-making process in Polish banks is about to change (Feakins 2004). Here Poland's accession to the EU is also seen as a step forward in terms of the still existing "financial wires", "because there will be much more competition in the banking sector" (INT: Sambura/ Wesłowska-Tannenberga, 02.06.2003).

*"There is a very odd thing with the banking system in Poland. The banks do not support small businesses at all. Even to get an overdraft on your account is difficult. It's so difficult to get any money that you feel they don't have a supporting policy [...]. They treat us as the highest possible risk. If you don't have a security in form of a property, forget about it (INT: Sambura/ Wesłowska-Tannenberga, 02.06.2003).*

A very similar statement was made by one of the biggest employers of the region, the manager of *Huta Katowice*. Like large state-owned companies, SMEs are faced with a lack of capital for their businesses. Additionally, the domestic market is too unprofitable and too many players are in a similar situation of having too little financial resources, either to invest or to pay business partner for their services or products. The case of *Ispik* reveals that the main strategy for by-passing this handicap is (as in the case of steel producer PHS, which is increasingly focusing on export markets) to search for external resources, especially for EU-funds. Similarly, the three-man company ICC, specialising in electronic control systems and cards has been searching for external financial resources for their investments and found them with the help of the regional development agency GARR in the pre-accession EU-fund Phare. Quite unusual for this business size, about 80 per cent of ICC's clients are transnational corporations, such as *Fiat* in Tychy, but the owner remarks that without his own capital (in form of estate property) the set-up of the business would not have been possible, because the "banks don't give credits" (INT: Czuber, 27.05.2003).

### **Public Private Partnerships**

Not only in post-socialist settings, PPPs are seen as a key for the unsolved problem of insufficiently endowed public funds, in particular at the local level. In the West, the

delivery of infrastructure projects is increasingly conducted on the basis of public-private co-operation. The case of post-socialist settings reveals that possible and useful co-operational projects can hardly be realised, because of a lack of sufficient formal institutions – regulations, which define these kinds of partnerships. In particular, the selection process of bidders in a tender and the process of how the companies involved will profit after the realisation of a PPP project is not regulated (INT: Pałak-Gruszczyńska, 10.07.2003). As a consequence, interested communes refrain from doing business with the private sector, especially on a small-scale level involving (local) SMEs. This is partly because they fear legal consequences and partly due to a general suspicion of corruption and bribery involved in these kinds of business relations, as the head of the city development department in Sosnowiec stated (INT: Pałak-Gruszczyńska, 10.07.2003). Indeed, “the truth is in between” (ibid.), and “a lot of money is paid under the table” (INT: Sambura/ Wesłowska-Tannenberga, 02.06.2003), but simply the atmosphere of (possible) accusations is enough to act as a deterrent, even for players who want to co-operate legally. The manager of *Ispik*, a company dependent on these partnerships, perceives this ‘intoxicated atmosphere’ as an enormous handicap for local and regional projects.

*“[...] probably you are aware of the political situation in Poland with a lot of scandals and corruption [...]. All these problems are based on the improper relationship between the private industry and public administration. At the moment the situation is like this: people in public administration are extremely reluctant to go into any relationships with private industries, because of the scandals, the negative atmosphere and the potential improper relationships. This is totally sick. It ties hands, absolutely. What is happening: one of your competitors writes a letter to a public administration saying that what they are doing is illegal. These administrations do not check whether it's really illegal, but it's enough to create this kind of negative atmosphere. They say: “oh, we better don't do anything with the private sector”. As a private company working with public administrations you are always suspected [of bribery]; The clerks, the appointees are suspected as well because they support a particular company. Nobody checks whether [a possible co-operation between a private company and a public administration] this is just a good idea, maybe it was a good choice” (INT: Sambura/ Wesłowska-Tannenberga, 02.06.2003).*



The next two sections give examples of how one Silesian firm is trying to by-pass typical problems of post-socialist markets. The first example provides evidence of the importance of being in reliable networks and efforts to extend these stable contacts. The second describes how small firms try to tackle the problem of developing and acquiring state-of-the-art technology. Both aspects – creating networks and the development of innovative technology – are heavily dependent on informal institutions. In the first case, the local and the regional level are an important base for trusting co-operation, whereas the connectivity to the outer world can be sometimes seen as a mental extension of the local, or the necessary effort to widen the foreseeable horizon. The second case gives evidence of the opportunities for SMEs to participate in informal international networks of technology transfer.

### **Old and New Networks**

Most of the shareholders of *Ispik* studied at the University of Gliwice and many business partners are as well known from this time: “I strongly believe in personal contacts and in working with people who I know and I can trust” (INT: Sambura/ Wesłowska-Tannenberga, 02.06.2003). It is not to say that these contacts are exclusively local or regional. Indeed, some of the partners and former colleagues are based in other Polish cities, but they share a common way of interpreting the difficult market and strategies for how to by-pass this situation. The local and regional level is not only a material geographical entity defined by boundaries and constructions of inside/outside, it can also be seen as an incubator of untraded interdependencies and thus facilitates environments of trust which can be geographically extended and continued over time. Besides the participation in local EU-linked projects like RIS, the management of *Ispik* is active also on an expert level in Warsaw and Brussels, contacts that could be promising in terms of new clients and other

players, even on an international level (Sambura/ Wesłowska-Tannenberga, 02.06.2003).<sup>133</sup>

For SMEs, the opening-up of the 'regional world' is perceived as difficult, because "it is not easy to be known, active and to get supported, if you are not in Warsaw" (ibid.), a problem which reflects the "re-centralisation" efforts of the Polish state, the "time-consuming process of getting in touch with decision makers" and the concentration of leading companies in the capital.

### **Being Innovative**

The main challenge for SMEs in emerging markets is the provision of innovative *and* affordable products for potential clients. The lack of public and private capital forces SMEs to look for unconventional technical and organisational solutions which are reliable and competitive. A company such as *Ispik* could never survive in this environment without developing their own technical solutions as opposed to acquiring western standard technology, because this technology is too expensive for the post-socialist market. In doing so, innovative SMEs rely on well qualified workers: in the case of *Ispik* all of them are graduates of the Gliwice Technical University. It is worth noting that the co-operation – in particular the absorption of graduates - between firms such as *Ispik* and the local university is much more intense than between GM *Opel* and the university. The costly western technology creates an incentive for eastern companies to be innovative. Firms such as *Ispik* draw heavily from the latest developments in 'open source' technology, which is freely available on the internet. With this strategy, the firm acquires a 'semi-finished' basic technology (e.g. in form of a programme) which was created by another, probably similar company and provided to any other interested player. The idea is that *Ispik* develops further this technology, modifies it along its needs and combines it with specific own

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<sup>133</sup> Mr Sambura is participating in an expert group called INSPIRE (Infrastructure for Spatial Information in Europe), a recent initiative launched by the European Commission and developed in collaboration with member states and accession countries. It aims at "making available relevant, harmonised and quality geographic information to support formulation, implementation, monitoring and evaluation of Community policies with a territorial dimension or impact" (<http://www.ec-gis.org/inspire/> - last accessed in September 2004).

solutions. The product and provisional results will be again provided for free on the web. In doing so, *Ispik* can be seen as an internationally well-connected firm which draws from the latest developments in information technology – and at the same time creating state-of-the-art products which can compete not only on the domestic market but also beyond.

*“At the moment we are basically developing our own technology, which has already proven as efficient and cheap in many projects – and that’s the best. This is not our own provincial parochialism [...]. I feel that our solutions in the spatial information systems area are already on a top level within the EU. We are building solutions which are absolutely standard and can be easily adopted to any condition of a European country. [...] I must say there is nothing we have to be ashamed of. We can compete on the open European market. I am looking forward to it” (INT: Sambura/ Wesłowska-Tannenberg, 02.06.2003).*

Certainly, these innovative product developments happen on a small-scale and on niche markets, but nevertheless it strengthens the argument of supporting SMEs in order to create regional (product) innovations. It turns out that a certain number of Silesian firms is ready for international competition and far away from being ‘closed’ or even ‘claustrophobic’, as stated by a director of the regional chamber of commerce. The question remains, however, how firms with a different level of innovative activity can be integrated into projects such as the regional innovation strategy (RIS), without overcharging the less innovative and undercharging the progressive ones. Apparently, projects such as RIS-Silesia are more designed for the newly established administrative actors, who have to become familiar with economic players of the region and to create first the cautious relations between the region and the local. First outcomes might be disappointing for rather innovative and already well-connected firms, but at least such a project creates a feeling of regional identity amongst participants and helps to find common understandings of constructed realities, a way to level different untraded interdependencies between different regional actors.

## 5.3 Private and State-Owned Firms and the Post-Socialist

### Market

In a survival economy, business relations are not easy to create or to maintain. The lack of sufficient formal institutions in a 'survival economy' leads – as other examples of this chapter revealed – to 'non-standard' ways of doing business in post-socialist territories, where informal routines are becoming more important than the standard way of doing business. The most successful routines of the 'survival economy' are trusted co-operation between partners at a local and regional level and the search for external resources and markets, a two-tier strategy which seems to be contradictory, but is apparently a promising way how to survive in transformation markets. Where formal contacts and relations are badly regulated, the recourse to well-functioning old networks helps to balance the lack of stable formal institutions in the present and to structure business relations in order to survive in unstable emerging markets. Indeed, it can be said that Storper's 'reflexive human actor', who interprets and constructs 'unreal' images of reality on which individual or collective action may be based, leads to 'real' effects in the economy (Storper 1997:29-31). In the case of unstable post-socialist markets the effects are the persistence of well-established networks of actors who share untraded interdependencies from the (socialist) past. These legacies make sense for the time being when other relations are perceived as risky or unprofitable, but they fail when at the same time the actor does not widen his/her "worlds of purposive reflexive action" (ibid:245), and thus opens up the self-constructed image of how to do business in a survival economy.

This chapter has shown that a number of old routines still survive in the new era of the capitalist market. The objective was to show that these routines – or untraded interdependencies – are not an obstacle for the creation of a 'functioning' market capitalism, but crucial to survive in it, particularly in a time of unstable formal institutions,

uncompleted reforms, and a difficult market situation, which has been described as a survival economy. The capacity to survive in this transformation market can be directly linked to the capacity of the player to combine and reconfigure old routines with new strategies, an innovative behaviour of *bricolage*.

In the case analysed of the steel industry, a way has been found which allowed *Huta Katowice* to restructure, to modernise its production facilities and at the same time to extend the market for their products. The search for export markets in the West can be seen as a learning process for this steel mill, an experience important for familiarisation with international standards of quality and a preparation for global competitiveness. At the same time the steel mill has survived on the unprofitable Polish market with 'socialist-style' barter deals, a substantial part of its business. Here, the regional knowledge and contacts of the former time are crucial to minimise transaction costs, typically much higher in these kind of non-monetary deals. In the end, the international boom of the steel industry, triggered by China's industrialisation efforts, helped to privatise the firm at the last minute, just before Poland's accession to the EU. Interestingly, the new owner, an Indian businessman, made a fortune restructuring steel companies in former socialist countries, a strategy that could be seen as 'counter-globalisation'. Against international advice - to privatise this sector much earlier (and thus to lower its privatisation revenues) - Poland's strategy of a 'late privatisation' (with the help of public subsidies for the restructuring process) turned out to be successful.

In contrast, the Silesian coal industry is still declining. The former socialist 'show industry' could not innovatively combine old and new routines of doing business in a transformation market. Certainly, the depth of the mines and the poor quality of the coal are the main reasons for the unprofitability of *Kompania Węglowa*, the biggest coal company in Europe, which includes the most intractable of Polish coalmines. Here, the routines between ailing

trade unions and management lead to lock-ins and conflicts which have not been solved, despite several efforts since the early 1990s. Moreover, the influence of political actors is still dominant in this sector and hinders the still necessary downsizing of output and workforce. The only way forward is to 'buy-out' work places, financed also by international organisations such as the World Bank. Unfortunately, the lump sum settlements have not been used for investments into new businesses, but have been spent on consumption, an aspect which has raised profits in particular for multinational corporations which invested in Poland.

Multinational corporations such as GM *Opel* benefit in post-socialist settings not only from substantially cheaper labour costs (about 15 per cent of a western wage), but also from their insertion into already existing - and in this case functioning - local economic and political networks. In order to strengthen the local political elite, they gain access to these kinds of circles and profit from tailored services relating to the creation of near-to-perfect production environments in tax-free green field zones. Additionally, TNCs tend to select positively perceived legacies and routines for their own business and work practices. In contrast to the local sphere, the region is perceived more as a potential market for products, rather than as a political sphere. The GM *Opel* management tends to connect either to national or local decision makers. The region is perceived as an unnecessary level of co-operation.

In contrast to multinational corporations and state-owned old industries, SMEs have neither access to sufficient capital nor access to political supporters, who could facilitate their business. Despite the establishment of SME-addressed projects in Silesia – controlled and mainly owned by the regional administration and co-funded by the EU – many typical problems of SMEs remain unsolved, particularly in terms of formal institutions such as the regulation of public-private partnerships or a functioning banking system. This lack of

functioning formal institutions causes non-standard ways of doing business, both legal and illegal. Similarly, old local and regional contacts and networks are refreshed and facilitate co-operation between well-known partners in a difficult and hostile market environment. New networks are created and open up the regional world, virtually and materially. The incentive of 'being innovative' is a response to costly western technology and the knowledge of stiff competition outside familiar markets. IT-SMEs profit from local labour markets and well-qualified workforces and contribute substantially to the restructuring of old industrial areas.

## 6 Doing Politics in a New Capitalist Territory

**T**his chapter focuses on local and regional administrations and their players. As outlined in chapter 4.2, the newly established and elected level of regional administration, the self-government, so far only has limited power in key policy areas, such as the privatisation efforts of major industrial sectors or financial agencies. Moreover, the two-tier system of the regionally elected Marshal and centrally appointed Voivod (governor) undermines the possibility of a coherent regional economic policy. Nevertheless, the regional self-government (the elected Marshal and his administration) tries to control the region's efforts to attract foreign investment with the help of tax exemption zones or to support emerging SMEs with a number of projects, already outlined in chapter five. This chapter summarises in a more detailed way the lines of conflict that occur in a newly created region, the Voivodship of Silesia.

First, the problematic administrative structure – the two-tier system – will be discussed and evidence given for the ‘struggle for control’ within the regional administration and its institutions. Second, the territorial reform of the Voivodship in 1998/99 leads to questions of intra-regional conflicts between the main agglomeration around Katowice (which until the reform constituted its own Voivodship) and the new northern (Częstochowa) and southern parts (Bielsko-Biała) of the new Voivodship, which have a different economic, historic and cultural pasts to the core. Third, examples of local development efforts are presented to provide an overview of the relationships between the different cities and their perception of the newly constructed institutions of regional self-government.



## **6.1 The Region as a Nexus for Transformation**

The first part of this chapter introduces the complex historical context of (Upper) Silesia – exploring the path-dependent legacies not only of its socialist past, but also of the interwar period and its struggle for autonomy since the 19<sup>th</sup> century. The purpose of this overview is not to focus on past political events in order to determine the present and future of this region, but rather to look at the potential for strong self-governance and economic transformation. It is suggested that the regional struggle for control over the pace and direction of post-socialist transformation reflects the (actively) memorised strong regional identity as well as past experiences of cultural and political conflict. The reinvention of a regional identity understood and explored as a socially constructed political idea which has developed as a tool for becoming or constructing a capitalist territory. It is argued that the recombined untraded interdependencies of different actors and their political networks play a crucial role in understanding the political-economic process of a region being made ready for adaptation to the capitalist mode of production.

### **6.1.1 Historical Legacies**

The political and economic struggle between centre and periphery has a long tradition in Upper Silesia. In the following, a short overview of this historical legacy is used to contextualise this struggle for today's economic and political transformation, as well as to increase the understanding of the meaning of self-governance in the region. In terms of changing political borders over time, Silesia and in particular Upper Silesia can be seen as one of the most complicated regions in Europe, where – between 1795 and 1918 - three empires met at one point, near the city of Mysłowice (East of Katowice). Indeed, today's Voivodship has areas which once belonged either to the Russian Empire (the Northern parts around the city of Częstochowa and the Dąbrowa Basin, East of Katowice), to the Austrian-Hungarian Empire (in the South around Bielsko-Biała) or to the German Empire

(the main agglomeration in the centre of today's Voivodship between Gliwice and Katowice). This historical fact leads raises questions about the ways in which the past – and here the pre-communist past – which positions Upper Silesia as a (former) borderland informs the area's contemporary economic and political development (Rykiel 1993; Błasiak 1993).

Many commentators suggest that the different historical legacies can still be recognised in some aspects of social and political life, such as voting behaviour, religiosity, or the attitude towards self-government. In the former Russian parts, it is suggested that the lack of self-governance during the tsarist centrally imposed administration (in which no Poles could participate) has left a continuing legacy of a lower level of engagement in the concerns of city development and self-administration. The former Austrian parts are by contrast perceived as dynamic and lively regional sub-centres, endowed with an engaged class of politicians and other actors who have an interest in good governance and economic development as a consequence of the relative high level of political participation by Poles in the 19th century. In the former German parts of the Voivodship – the core agglomeration of Upper Silesia - political and administrative participation was only possible if Poles spoke fluent German and were willing to adapt to 'cultural norms'. Nevertheless, the legacy of the 'well-organised German-Prussian administration' (which was in fact inherited from Napoleonic France) is today perceived as a regional asset, but nowadays rather associated with 'Silesian' peculiarity, than with the German heritage.

The Prussian province of Silesia, with its capital Breslau/Wrocław, developed quickly as an industrial powerhouse during the second half of the 19th century, with Upper Silesia as the heavy industrial core of the Kingdom. After the establishment of the German Empire in 1871, the Rhine province – and here in particular the Ruhr area – became more important in terms of size of population and production output. At the end of the 19<sup>th</sup> century the

wages of a miner in hard coal production were in average about 36 per cent lower than in the Ruhr, a fact, which accelerated migration from Silesia to this West Prussian province (Fuchs 1994:561) and led to a lack of labour force in the region, which was balanced through labour migration from the Russian parts. The main reason for the relative decline in the importance of Upper Silesia can be seen in its relative geographical distance from its (potential) markets: The Russian and the Austrian Empires imposed high custom duties on Prussian products throughout the 19<sup>th</sup> century and thus forced Silesian producers to sell their goods in other parts of Prussia, in other western European countries, as well as in other German countries. This was facilitated through the creation of a common market by the *Deutscher Zollverein* [German Customs Union] (1834-1871). By contrast, the Rhine-Ruhr area's favourable geographical location as well as easier access to markets – improved through the establishment of the German Reich – underpinned its economic boom.

In the interwar period, the Polish part of Upper Silesia enjoyed a degree of autonomy, which was unrivalled in Europe. This was in part a result of the struggles for independence from the German Empire, which led to three risings in Upper Silesia after the First World War, but also of the emergence of a 'Polish-Silesian identity', which developed in the early 20th century, fuelled as a reaction to increasing efforts at 'Germanisation'. In 1918, when Poland gained national independence after more than 120 years of partition between the three empires, the struggle for independence continued in Upper Silesia. At first the League of Nations administered the region and organised a disputed plebiscite for the region's final national affiliation. In 1921, about 30 per cent of Upper Silesia (incorporating 46 per cent of its population) went to Poland, while three industrial cities of

the agglomeration – Gleiwitz/Gliwice, Hindenburg/Zabrze, and Beuten/Bytom (besides the rural western parts of Upper Silesia) - remained part of the German territory.<sup>134</sup>

After the League of Nations decided to divide Upper Silesia, the Polish Silesians achieved the highest possible level of autonomy within Poland, with some influential groups even discussing the possibility of full national (Silesian) sovereignty (Tooley 1997). In the short interwar period, the region managed to widen its financial autonomy with its own treasury and political autonomy with – in comparison to the rest of Poland - a completely different set of laws regulating mining, labour relations and land ownership as well as the complete control of the regional governor, the Voivod, over regional administration and schooling. This development prevented full legal and political integration of Upper Silesia into the rest of the country and has caused some historians to speak of a “de facto union of two nations” and of “civizational divides that lay between the region and the rest of the new Polish state” (Bialasiewicz 2002:114).

While Upper Silesia was in former time part of a geographically remote Prussian province, after 1918 it became a mentally remote part of Poland, which was even reflected in its unique, so-called ‘organic’ status. During the first years after the plebiscite, some influential political actors of the region – most of them Catholic conservatives, the so-called Silesian *chadecja* - stressed the region’s idiosyncrasy with its rather well-organised educated elites, the functioning rule of laws and its ‘egalitarian’ society. In this way Upper Silesia was portrayed as model of development for the rest of the state due to its high level of industrialisation and urbanisation – while, after Marshal Piłsudski’s putsch in Warsaw 1926, other groups - the *sanacja* - gained (not only) regional influence and insisted on the

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<sup>134</sup> In the plebiscite area, almost 60 per cent of the Upper Silesian population voted for Germany and the rest for inclusion within the new Polish state. About 79 per cent of the coal mines and 75 per cent of the steel mills were located in the new Polish territory (Fuchs 1994:635).

full integration into the new Poland and the rejection of Upper Silesia as a multi-cultural 'borderland' (Davies 2001:108-110; Bialasiewicz 2002:116).

The ongoing 'Polonisation' of Upper Silesia in the years up to the Second World War weakened the common feeling of a special regional belonging, which previously had united Silesians, regardless of their national (Polish, German, or Silesian) identification. Nevertheless, the German occupiers, who conducted a census in 1941, estimated that over 60 per cent of the population had a 'labile' national affiliation, what showed that mixed identities still survived (Bialasiewicz 2002:117). After the Second World War, when the last remaining German parts of Upper Silesia and Lower Silesia became Polish territory under the Potsdam Treaty (with the new borderline of the rivers Odra/Oder and Nysa/Neisse), Germans were expelled or left voluntarily with the help of family-reunification programmes in the following decades. It is estimated that more than one million Germans left for the Federal Republic between 1955 and 1989 (ibid.). Additionally, millions of Germans were expatriated from Silesia and other former German territories in the immediate post-war time. In the communist time, these 'gaps' were filled with Poles from the eastern territories which were lost to Ukraine after the western shift of the Soviet Union.

The multi-ethnicity of the region came to an end and, instead, Upper Silesia became GOP, the *Górno-Śląski Okręg Przemysłowy*, or the Upper Silesian Industrial District. The main identity pattern was not cultural-historically inscribed anymore, but marked exclusively in an economic way, as the model region of socialism with a 'human face'. Nevertheless, the region was still perceived as different from the rest of the nation – and again in a negative way, because of the many privileges workers enjoyed not only in better housing and vacation homes, but access to scarce goods through the network of special shops for miners. The Katowice journalist Krzysztof Karwat notes that "The image of the region in

the rest of the country was that of servile conformists, opportunists, the guiding force of the nation – we were nothing but workers [...] loyal to the authorities and just thinking of filling our always empty stomachs” (quoted in Bialasiewicz 2002:118).

The region’s demand for autonomy and independence is still apparent in the enormous size of the building of the *Sejmik* (the Silesian parliament built in Katowice in the 1920s), with the main protagonist of the Upper Silesian uprisings - Wojciech Korfanty (1873-1939)<sup>135</sup> - standing as a monument in front of the building.

The idea of a broader autonomy for the region and even separatism remains powerful, even though these movements are not taken seriously any more or have no political power respectively. The last Polish census in 2001 reveals that 173,000 Poles characterise themselves as ‘Silesians’ rather than of Polish nationality.<sup>136</sup> This surprising outcome caused the 5000-member Movement for an Autonomous Silesia to call for the official recognition of the ‘Silesian nationality’ with the help of the European High Court in Strasbourg, because “the central government in Warsaw does not understand Upper Silesia [...] and the bonds of its people with the territory” (INT: Gorzelik, 21.07.2003). The critical attitude towards the capital Warsaw and centrally enforced regulations is not only a matter of sectarian political movements, but can be found throughout all political parties with their continued demand for increased authority for the regional self-government.

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<sup>135</sup> *Wojciech Korfanty* was Christian Democrat, an ex-Prussian deputy as well as member of the German Reichstag in Berlin. It is believed that Korfanty was murdered by the Polish intelligence service while on a trip to Warsaw shortly before the start of the Second World War. Interestingly, Korfanty’s main antagonist after 1921, Marshal Piłsudski, Poland’s head of state between 1918/19, who launched a putsch in Warsaw in 1926, stands as a monument on the other side of the regional parliament. The juxtaposition of both historical figures can be seen as an expression of the continuing ‘double identity’ of being Poles and Silesians at the same time.

<sup>136</sup> Somewhat surprisingly, research about ethnic identities in Poland conducted during the first transformation period and the first census after 1989 revealed that by far the largest minority group were ‘Germans’ - more than 75 per cent of all ethnic minorities - a fact which was officially suppressed during the communist regime (Łęcki/Wódz 1997:276). Most of the Polish ‘Germans’ live in the rural parts of Upper Silesia (‘West Upper Silesia’ or ‘Opole Silesia’), which is characterised by an extensive network of small towns and villages, where the population structure remained widely untouched by the assimilation and migration dynamics which influenced the social and cultural fabric of the industrial core over decades (Kühnemann 1993:260). The latest census in 2001 ‘displaced’ the former strongest minority – the ‘Germans’ - to second position, as only ca. 153,000 Poles declared themselves as Germans.

### 6.1.2 The Re-Emergence of a Regional Identity

After more than forty years of centrally organised administration in the socialist period, a revival of 'regional thinking', the demand for decentralisation and a proper division of competences between various levels of territorial governance and their relation to the centre not only took place in Silesia, but also in many other regions of Poland and CEE, which are believed to have a 'strong regional identity'.<sup>137</sup> The reform movement – supported both by civic groups and state representatives - reflects the call for participatory democracy and the revival of historical-cultural regional and local peculiarities within a country which was characterised as 'homogenous' during the communist rule (Bialasiewicz 2002). Moreover, the new regionalism in CEE must be seen in the light of EU efforts – the Europe of Regions - and the accession process. The larger size of the new Polish voivodships after 1999 was heavily influenced by the need for larger territorial units, capable of absorbing and distributing EU funds (see chapter 4.2).

The first elected Marshal of the Voivodship of Silesia, Jan Olbrycht, who was in office between 1998 and 2002, describes the initial role of the regional administration in the restructuring process of heavy industry as "observers" who were treated like "outsiders" and "out of discussions" by actors of the central government and managers of steel and coal companies (all quotes: INT: Olbrycht, 18.07.2003). The original influence of the region as an active participant in the restructuring process was limited to the imposition of fees for environmental damages caused by heavy industry – penalty fees which were never paid, in particular by the coal mines. Besides the regional administration's task of providing basic public services such as transport infrastructure, the health system,

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<sup>137</sup> In Poland, besides (Upper) Silesia, in particular the Voivodship of Wielkopolska (Poznań) and Pomorska (Gdańsk) have strong regionalist movements (Cymbrowski 2004:53).

schooling, and environmental issues the main function is and was seen to be the co-ordination of regional development measures.

At the beginning of Olbrycht's period of office, the instruments to undertake this task had first to be created, but the 'development function' is still better described as "programming than governing" and inscribed in the "Development Strategy 2000-2015", a document which is the outcome of discussions between several social partners, NGOs, experts, and trade unions but does not include the role of coal mines for example, because "we do not have influence on this industry". Instead, this document includes only topics which are or can be controlled by the region, such as the support of SMEs (chapter 5.2.2) and the attraction of new technologies. Not surprisingly, limited control of the region's economic trajectory leads to a limited material and non-relational definition of 'development', where transport infrastructure is perceived as the "base of development" and "highways are important for investors" (INT: Olbrycht, 18.07.2003). At the beginning of Olbrycht's time in office, interested investors directly contacted the regional administration - as in the case of *Huta Baildon* in Katowice, which was liquidated in 2002 - "despite new technology", because "we were not the partners". Today, possible investors are more likely to contact the Upper Silesian mayors than the Marshal, because "we do not have enough instruments", a fact which makes "mayors very strong" in the political arena of the region, notwithstanding their political background.

The main selling point for 'development' is the region's historical past as a cultural diverse territory, which "was always more open than other Polish regions" (INT: Jarosz, 15/16.07.2003) and so presented as fitting in well the new EU of 25 members. The former Marshal Olbrycht specifically identifies the voivoidship's 'cultural variety' as an "asset for regional development", which could be positive in the long-term (see also INT: Jarosz, 15/16.07.2003).



The accentuation of different 'sub-regional identities' is reflected in the "Development Strategy 2000-2015" in terms of the creation of four sub-regions which are responsible for the formulation of an own interpretation of their development needs.<sup>138</sup> Especially the northern and southern parts of the new voivodship, which persistently opposed their (centrally imposed) integration into a new entity before the reform took place in 1999, lost many authorities in favour of the new voivodship capital of Katowice. The establishment of sub-regions can be seen as a channel for the (local) maintenance of political power – or an off-set deal for lost influence. The new voivodship and its invented 'sub-regional traditions', 'identities' and 'varieties' is in practice a meaningless shell, mainly created in order to become a 'proper' capitalist territory, which has to attract international investors or to absorb EU funds. The formulation of 'cultural diversity' as a regional asset seems to be rather pragmatic in terms of public relations and a symbolical counterbalance to the still mono-structural regional economy. This is not to say that intra-regional differences in identities do not exist, but rather that these socially constructed differences have a more important function in the political mobilisation of the electorate and the regional actors' widening of political and economic power on several geographical scales with different modes. The division of 'identities' between Poles and Silesians, one of the main topics in the interwar time, no longer exist. However it is possible, as reflected in the plebiscite of Poland's EU-accession, that Poland's and thus Silesia's access to the European Union could recreate identity divisions, caused by different regional 'degrees of openness' towards western Europe (McManus-Czubińska, Miller et al. 2003:138).<sup>139</sup>

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<sup>138</sup> Initially, six sub-regions were proposed around the main cities of the voivodship: Gliwice, Katowice, Dąbrowa Gornicza (Zagłębie Dąbrowskie), Częstochowa, Rybnik, and Bielsko-Biała. After long negotiations, the industrial core (the central agglomeration between Gliwice and Dąbrowa Gornicza) was established as one sub-region ("the central area of development policy") instead of three different ones, because "we did not want to maintain the traditional division, but to concentrate on economic change" (INT: Olbrycht, 18.07.2003). In addition to the central area, a northern sub-region (Częstochowa), a southern area (Bielsko-Biała), and western area (Rybnik) of development policy were also established (Śląskie Voivodship 2000: 92).

<sup>139</sup> The Voivodship of Silesia had the second highest turnout of all Polish voivodships (59.9 per cent) with 84.5 of the electorate voting for Poland's accession to the EU, and the second highest 'yes' result in Poland

### 6.1.3 The Struggle for Regional Power

While the former Marshal Olbrycht points to the lack of ‘instruments’ and exclusion from discussion circles in the early days of the establishment of regional self-government, the SLD-administration (centre-left; ‘post-communists’, elected in 2002) summarises the influence of the region in the shaping of policies quite clearly in noting that “the power follows the money” (INT: Jarosz, 15/16.07.2003). No doubt, the newly established Marshal’s Office could widen its political influence to the disadvantage of the centrally appointed Voivod, but it is usually regarded as under-financed. Until now, 80 per cent of the region’s budget derives from Warsaw as a ‘donation’ which has to be applied for on an annual basis for ‘target-oriented’ projects (ibid.). In the end, the regional self-government of Silesia – a region with nearly 5 Mio inhabitants – has a budget which is only as high as e.g. the budget of Katowice which can be seen as “a serious barrier to the region’s economic independence” (Cymbrowski 2004:59).<sup>140</sup> New legislation is being introduced nationally which will change this financial relationship – identifying a different proportion of taxes for the voivodships and communes (*gminas*) respectively. Under the new legislation, the voivodship’s budget would consist of 40 per cent allowances from Warsaw with 60 per cent being generated directly by the region with a new distribution formula of property and ‘personal’ taxes (INT: Jarosz, 15/16.07.2003).

The SLD Marshal’s Office is planning to extend its political and economic influence in areas which were until recently ‘closed’ to their involvement. The new programme for the restructuring of the mining industry provides that both – the voivodship and the communes (*gminas*) – have a stronger influence on the implementation of the programme. The

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(highest consent: adjacent Voivodship of Opole, 84.9 per cent; lowest consent: Voivodship of Lublin, 63.3 per cent) (wprost, 22 June 2003: 24-26).

<sup>140</sup> It turns out that the financial situation of the communes (*gminas*) is even worse, despite – or because – of the 40 per cent of income that they are expected to generate for themselves. “Practically, the voivodships have to financially support the *gminas*” (INT: Jarosz, 15/16.07.2003).

proposed PLN 2 billion (about GBP 330 million) programme, partly financed by the World Bank, includes regional and local control of about PLN 200 million (120 million for the affected gminas) which will be spend on re-qualification measures, the “creation of new workplaces” as well as for loans (PLN 80 million) to SMEs (INT: Jarosz, 15/16.07.2003). The rest of the budget will be used for the (physical) renewal of the coal mines, a process which takes usually up to three years. The Vice Marshal, who supervises the regional economic policy of Silesia, stresses that the region is determined to “avoid the mistakes, which have been done in the past” in offering redundant workers of the heavy industry high settlements which were mainly used for consumption, but not for investment into new businesses. While it remains unclear how the regional self-administration succeeded in widening its influence in the restructuring of the ailing and centrally controlled coal industry, it can be assumed that the shared party affiliation of the parties in government at regional and central level played a crucial role. However, the regional self-administration has not only strengthened its political standing and bargaining power with respect to the central level, but the mining communities affected have also been given a greater role. In particular the incorporation of the gminas into the region’s restructuring process transfers authority to affected local administrations and will contribute to the learning process of the these cities, instead of leaving them as passive and ‘helpless’ observers of their own decline. The future will show whether this programme will be actually realised or whether it will be just another ‘good idea’ on the list of numerous efforts over the last 15 years.

The regional struggle for power – between the central administration in Warsaw and the newly established regional self-government – also finds an expression in the two-tier system of parallel administrations of the Voivod and the Marshal, sharing the same building - the Sejmik (owned by the Voivod) - in central Katowice.<sup>141</sup> Both heads belong to

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<sup>141</sup> The exclusive characterisation of the Voivod as a ‘central organ’, appointed and controlled by Warsaw and installed in the region is rather difficult, because of much more complex *de jure* relations and *de facto* practices, in the socialist past and in the post-socialist present. For example, in particular during the

the same party (SLD), a fact which “helps in terms of co-operation” and private interaction, but “in the end it’s a matter of lost power for the Voivod, who has a boss” (INT: Jarosz, 15/16.07.2003). While the Voivod (and the central government behind him) is, as indicated earlier, powerful in terms of financial provision and its distribution, the main function of this administration is the complete supervision of the self-government and its decisions, in particular regarding national laws and their implementation in the voivodship, the districts (powiats) and communes (gminas). The director of the Voivod’s Office for EU Integration, Elżbieta Sołtysek, describes the interrelation between the two administrations quite pragmatically: “they [the Marshal’s Office] are the hosts, select and propose the projects and we [the Voivod’s Office] are controlling them and give the money. In the end, we all play the same game” (INT: Sołtysek, 02.07.2003).

If the Marshal is ‘programming’ (Olbrycht) and the Voivod is ‘supervising’, who is governing the region, who has the power to shape the region’s future? It is suggested here, that both administrations are (still) in a dynamic period of transformation. So, the *de jure* power of the centrally appointed Voivod is decreasing, but it is gaining a stabilised *de facto* power with the help of supervision functions and financial provision. At the same time, the elected Marshal with his office is trying to extend his political-economic control, but his efforts are enormously limited by the political goodwill and financial feasibility of the central administration. Both offices are in a learning process regarding new responsibilities and authorities since 1999, but it must be doubted whether the parallel world of two administrations can be an effective solution for the active shape of the region’s (economic) development.

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‘transition periods’ in the interwar time and after 1989, the central government showed a “respect for regional opposition”, with the appointment of ‘Silesian’ Voivods instead of ‘outsiders’ (Majcherkiewicz 2000:145). Thus, the following sections have rather an analytical purpose, trying to understand general political and economic interrelations between local, regional, and (inter-) national levels.

Like the practices and routines of regional economic actors, the organisation of regional administration in total is characterised by old and new elements, in this case a *bricolage* of administrative competencies and levels, which results in recombinant routines of a new character. The outcomes of these recombinant routines have different causes and - both positive and negative - effects in the world of economic actors, as suggested in chapter five. The recombination of the regional political world is best understood as a political compromise between the advocates of a strong centre and the regionalist movements who support the de-centralisation of the state and point to Upper Silesia's legacy as a far-reaching autonomous region in the early 1920s. In this case, 'old' is not (only) a code for the region's communist past and the legacy of centrality, but the pre-communist past, a history which is newly discovered, modified and defined by current actors and their political and economic interests – and used as a starting point to control and organise the region's transformation.

#### 6.1.4 The Divided Regional Power

In the following, an example is given of the Voivod's influence in shaping the region's economic transformation – without any co-operation with the Marshal's Office -, a mode of power which reaches behind abovementioned authorities of supervision and financing. Surprisingly, this regional shaping power has largely been neglected by recent research, which has rather been concentrated on the newly established self-governments and their programmes since 1999. The Voivod as the representative of the Council of Ministers and thus also the State Treasury, is involved in regional privatisation measures “until this function is commissioned to the Treasury Minister” (Cymbrowski 2004:57). Indeed, the minister is directly involved in the privatisation of the steel industry (in the case of the coal industry it is also the Minister of Economy). In the case of smaller and middle-sized state-owned assets (depending on turnover and number of employees), it is the Voivod and his

administration who organise the privatisation process in the region, together with the so-called 'un-unified' administration, a Ministry of the State Treasury organ in form of a (Voivod-independent) permanent delegation, based in this case in Katowice. Additionally, the Voivod works together with the Upper Silesian Agency for the Restructuring of State Companies (GAPP), a state agency specialised in providing consultancy support.<sup>142</sup> The 'process of privatisation' is started by the Voivod, who decides which state-owned enterprises will be privatised. This happens with the preparation of a feasibility document, on which basis the Katowice-based Ministry of the State Treasury Delegation decides which form of privatisation is suitable (INT: Miazek/Zaród, 22.07.2003).

The process of privatisation of state-enterprises is either conducted through *direct* or *indirect* privatisations. Indirect privatisation (or so-called commercialisation in the form of shares belonging 100 per cent to the state) is the initial common form for larger state enterprises (see chapter 5.1.1 for the case of *Huta Katowice*; see also Ministry of the Treasury 2000). The most common form of *direct* privatisations in the voivodship has been the 'leasing model', where an interested investor first leases a whole company with its employees and machinery for a period of up to ten years, before the state-owned asset will be completely privatised, a model which is popular because of less capital demand for the new owner. While the biggest chunk of state-assets was 'regionally privatised' between 1990 and 1997, the process has been substantially slowed down since the year 2000, with no privatisation in 2002 and only two in 2003 (INT: Miazek/Zaród, 22.07.2003; Kowarska, 11.07.2003), in total about 20 "successful privatisations since 1999" (INT: Boroń, 04.07.2003).<sup>143</sup> The remaining 'untransformed' assets (neither privatised nor

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<sup>142</sup> At the time of the fieldwork, only one person in GAPP, Stanisław Leśniowski, had responsibility for the task of consultancy in state-owned enterprises while new – EU-funded – fields for the agency have been found, such as the Centre for Innovation and Technology Transfer, a department of GAPP. This organisational development suggests that either the demand for this consultancy is not accepted anymore or that the organisation has been searching for more 'profitable' tasks.

<sup>143</sup> Since 1990, 435 state-owned enterprises of the Voivodship of Silesia have been 'transformed', which represents 66.9 per cent of the regionally based state-owned companies (July 2003). 108 of these assets were directly privatised: 25 were sold, 74 leased and 9 transformed into companies owned first by the State

commercialised) are mainly communal based assets of the energy or water sector (15), local and regional transport providers, but also small and middle-sized industrial companies, in total about 65 enterprises.<sup>144</sup>

The reason for the privatisation slowdown is the “lack of profitability of the remaining assets”, for which no investor can be found, or the low bids offered by interested investors and the worsening of the overall economic development since the beginning of the decade (INT: Boroń, 04.07.2003). Privatisation is “only possible if those enterprises have own property assets and are in a good economic shape”, but a number of enterprises which meet these preconditions are still not privatised, because “the Voivod has not made a decision yet and probably does not want to privatise them, because there is no need for action” (INT: Boroń, 04.07.2003). Additionally, problems with the restitution of real estate are mentioned, but “in any case, it is not a political question, but a question of formal problems” (INT: Kowarska, 11.07.2003). The expert for the privatisation of state enterprises in GAPP also notes the “strategic value” of some of these assets, such as parts of the energy or armament sectors, as a reason for the privatisation slowdown (INT: Leśniowski, 15.07.2003).

Nevertheless, the last government programme, conducted with the help of the EU, schedules the complete privatisation (or liquidation) of smaller assets by 2006, a programme over which the Voivods have not been consulted. Here, two remaining privatisation strategies will be implemented. First, the ‘commercialisation’ model, which is mainly an alteration of the type of company, from state to private, but where the shares are

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Treasury and an investor, with a 15 per cent share donated to the work force after two years, and the rest of the State Treasury-shares will be sold to the investor within the next years. The remaining 327 ‘transformed’ companies (either liquidation or indirect privatisation, ‘commercialisation’) were either liquidated (168), transferred into companies fully owned by the communes (48), the State Treasury (88) or transferred to agricultural agencies of the State Treasury (23) (INT: Kowarska, 11.07.2003).

<sup>144</sup> Examples are given for heavy machinery production, including machinery for the coal mining industry, wire production, and a match factory (INT: Boroń, 04.07.2003), or concrete production, agricultural machinery trade and trade in metallurgical products (INT: Kowarska, 11.07.2003).

still completely owned by the state. This model has the advantage of greater 'flexibility', in particular towards labour representatives, who do not have a right of co-determination under the new type of company and the possibility of selling (all) the shares to a private investor in the future.<sup>145</sup> Second, the complete liquidation of especially unprofitable enterprises which "do not have a chance on the market" (INT: Boroń, 04.07.2003). While the commercialisation process includes a limited right of co-determination for the affected labour force, complete liquidation – usually conducted through a state representative - does not (INT: Leśniowski, 15.07.2003). The models may also be combined. First, the state-owned enterprise will be liquidated and then re-established under private company law - as in the case of the regional tramway system. The appearance of a state liquidator in a company is often used as a tool to reduce the salaries of the workforce and to "break their resistance", because "when the representative comes, the workers know that the situation is serious" (ibid.). After an enterprise is liquidated, the remaining physical shell – premises and land – incurs further costs for the state, if a buyer who would 'revitalise' the land cannot be found. In such cases the Voivod and his partners (the ministry delegation and the consultant) usually start to negotiate with the municipality to transfer property and derelict land to them, in many cases for free, as a compensation for lost and unpaid taxes (ibid.).

The example of regionally conducted privatisation and the liquidation of small and medium-sized state assets underlines the lack of influence exercised by the political

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<sup>145</sup> Until now, mixed state/private ownership has been possible. The new government programme requires a complete one-off selling of the former state-owned shares to a private investor (INT: Boroń, 04.07.2003). Indeed, the case of *Welux*, a mixed ownership (40 per cent state-owned) venture-capital enterprise reveals the strange dynamics of 'recombined' ownership where the state participates in the speculation and liquidation of ailing state assets, "because the State Treasury is interested in profits" (INT: Leśniowski, 15.07.2003). In the case of *Welux*, the former wool producing state enterprise (originally established in Bielsko-Biała in 1828) was partly sold to the son of a former influential regional communist leader in 1996/97, who helped in this cheap transaction. The complete machinery and the estate property were immediately sold and 300 employees (of former 1000 in 1989) were dismissed. The profits were used to speculate in other ailing state assets, such as the clothing industry ("buying – liquidating – selling") and were additionally invested into TV cable production and the recycling of auto spare parts. The co-owner differentiates between five types of Polish enterprises: 1) SMEs in the consumer products sector, 2) companies which export to the West, 3) new companies in the IT sector, 4) "Political companies" (the state-owned sector), 5) Western companies. In particular the first three 'types of companies' are interesting because they offer the chances of generating profits. The co-owner indicates that *Welux* will move to the Netherlands, Hungary, or Slovakia after Poland's EU accession, to avoid high Polish taxes (INT: Gajdziński, 26.06.2003).



legitimised Marshal's Office in a crucial area of the transformation process. In fact, the commission which is responsible for this privatisation process is appointed by the Voivod and usually includes representatives of the company's management, the State Treasury Delegation, GAPP, works council, trade unions – and the mayor of the affected city (INT: Kowarska, 11.07.2003). Where privatisations are successful in terms of the creation of newly owned profitable companies, the central state actively supports the economic transformation process of the region, but by-passing regional programmes and strategies which have been developed under the auspices of the elected administration.

It is argued here that the lack of involvement of the Marshal's Office in this process and in particular its absence from networks responsible for privatisation efforts lead to a disconnection from the local problems of economic transformation and highlight the extent to which it is not accepted as a partner for local development in the region. While the new elements of the post-socialist regional administration are focusing on the creation of regional innovation clusters – an enormous task in an old industrial area – with the help of the EU, the real shaping power of transformation is still held by the central government in Warsaw, not only through the creation of formal institutions, but with the *de facto* authority to transform even small state companies into private ones – or to liquidate, depending on national interests and not regional ones. The old element (the centrally appointed Voivod) is not sufficiently connected to the new element; the recombination of the two elements ensures that they undermine each other in some cases, and are at least ineffective in others.

The formulation of regional interests is supported by the EU, which acts as an external intervening actor. Not surprisingly, the rather weak elected regional body has tended to increase its influence with the help of EU funds and advisory support from West European regions, such as North-Rhine Westphalia (Germany) or Nord-Pas de Calais (France), with

which Silesia is twinned. This international strategy can be seen as a means of balancing its rather weak position with respect to the central state administration, of opening up the former 'isolated' region, and of supporting the learning process of a new capitalist territory which connects with former historical experiences of a region leaning to the West.

## **6.2 The Post-Socialist City as an Economic Actor**

In this section a more detailed overview of the local leeway for shaping post-socialist transformation is presented. While the regional self-government is limited to programming the restructuring, the municipalities are the places where possible new investments are negotiated and planned. It is argued, that the post-socialist city has gained authority and widened its political influence in the new capitalist era. On the other side, the new possibilities are limited by an increasing competition between cities and in particular by the race to attract scarce foreign investment. Additionally – as in all cities - local economic restructuring is highly dependent on formal institutions at the national level and is faced with external developments such as the internationalisation of capital and production. Nevertheless, it is suggested that even the ordinary post-socialist city has a 'window of opportunity' to shape local restructuring, although the 'successful' process is not only highly dependant on the time-limited cost advantage of low production (labour) costs, but also dependant on powerful political-economic networks and the existence of well-connected actors who are willing to formulate and capable of formulating local visions and to lead their cities through a 'transformation learning process'. In this reflexive process of risk taking, winners and losers are produced, while the question arises which circumstances and routines are either contributing or impede successful starting points of necessary local restructuring.<sup>146</sup>

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<sup>146</sup> The following examples of local restructuring strategies of cities located in the agglomeration of Upper Silesia is highly selective. Indeed, most of the cities that are considered can be characterised as 'successful' in terms of recent economic change, in particular in comparison to adjacent cities which have been much more dramatically hit by the downfall of heavy industry. Despite similar economic starting points, those cities have

### 6.2.1 Katowice – The Lack of Vision

The capital of the Voivodship of Silesia – Katowice – is characterised by its functional centrality and size as an administrative capital as well as by the visual decline of old industrial industries and a number of unsuccessful white elephants after 1989.<sup>147</sup> The most important city projects are presented and the potentials for restructuring are discussed in order to have an example of typical ongoing problems faced by ordinary post-socialist cities.

**Photo 3: Katowice, 2003**



Source: K. Koc

Higher education is seen to be as one of the main assets of the city, with the Silesian University as the biggest educational organisation of the whole region, whereas the city's character as an old industrial place is described as a weakness (INT: Zych, 29.05.2003). Indeed, many of the initiatives taken by the departments of the city council focus on

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until now not been able successfully to transform their cities and adapt the capitalist routines which are necessary to attract a significant number of investors. These are cities such as Bytom, Zabrze, or Dąbrowa Górnicza; all of the mayors refused to be interviewed.

<sup>147</sup> While the mayor of Katowice, Mr Uszok, refused to be interviewed despite month-long efforts, many municipal departments were willing to be interviewed. The general picture which derives from these interviews is a lack of vision and projects, which are suitable and competitive to support local restructuring, in particular in comparison to other cities of the region. This has been confirmed by other informants, who were willing to criticise the political leaders in Katowice (INT: Donocik, 28.07.2003; INT: Kańtoch, 18.07.2003; INT: Smolorz, 14.06.2003).

changing of this image, supporting cultural activities and the development of leisure facilities, the support of smaller service businesses and even the establishment of Katowice as a regional banking capital. The city's dense geographical position in Upper Silesia - surrounded by many other cities – does not allow for growth, thus any new project can only be realised on derelict land (INT: Łuczak, 03.06.2003).

In the earlier transformation period, the city invested in a centrally located derelict area (of the former steel mill *Huta Baildon*) with the aim of establishing a banking area with additional office space for banking related services. This high-profile project collapsed after the near completion of the first building phase, leaving most of the office buildings still unfinished and empty. In comparison to other cities of the region, the council has not developed a city programme or 'vision', because "we have no time to think about the future" (Lidwin, 18.06.2003). Indeed, the department of city development is solely focused on single, unconnected mid-term infrastructure projects, such as the establishment of a new sewage and gas system (required under EU legislation), and the extension and improvement of the road network, in particular the new regional highway between Gliwice and Katowice, "which will attract investors" (INT: Zych, 29.05.2003). This optimistic estimation does not match the fact that the city has not yet succeeded in attracting a high-profile investor, in comparison to their neighbour cities.

The journalist Michał Smolorz who was mayoral candidate in 2002, describes the current mayor of Katowice as a village mayor ("Schultheiß") with a lack of visionary thinking or a European perspective (INT: Smolorz, 14.06.2003).<sup>148</sup> The Upper Silesian local political scene is, he suggests, dominated by small-minded people who lack intellectual capacity, in comparison to cities such as Wrocław or Kraków, which are "less politicised, and more

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<sup>148</sup> Smolorz describes himself as an 'official jumping Jack' ("dienstlicher Hampelmann") and 'Polish Upper Silesian' who stood as a mayoral candidate only for provocative reasons and to encourage discussions in Katowice.

personified". Even the Silesian University in Katowice, a former "communist and anti-Jewish bastion", which was established in the end of the 1960s, is now described as "rather unimportant" in comparison to the Technical University of Gliwice. The "lack of modern elites and middle-class" as well as the persistence of the 'homo sovieticus' who still thinks in "old categories of centrality" is, in the journalist's perception, responsible for the failure to build up a "modern local and regional identity" which connects to the historical past of different cultural influences, but embeds this heritage and asset into a diverse European context of openness.

The liberal member of the city council of Katowice, Halina Kańtoch, - opposed to the non-party mayor Uszok - suggests that "people with ideas have no chance in Katowice" and also criticises as well the mayor's lack of vision for the city (INT: Kańtoch, 18.07.2003). Moreover, insufficient formal rules led in recent times to an increase of corruption cases, in particular concerning public tenders. While the parties in opposition to the mayor – PO (liberal) and SLD ('post-communist') – do not co-operate with each other in a formal way, on certain fields such as recreation and health (the municipalities are responsible for hospitals), "solution-oriented" policies have been agreed beyond party affiliations, in a "non-politicised" atmosphere. Due to Katowice's functional centrality as the Voivodship capital and the maintenance of a lower level of unemployment, the financial situation is characterised as rather good, in comparison to other cities of the region, but "profits of the companies are transferred to outside of the region" (INT: Kańtoch, 18.07.2003).

It is suggested here, that the city of Katowice 'rests on its laurels' as an administrative capital, where responsible political leaders hardly feel a need for innovative ideas and visions for city development. Proposed projects concentrate on infrastructural measures only – such as the beautification of the Rynek (the central 'market', in the case of Katowice in the unique shape of a traffic roundabout) or the extension of the street

network. It turns out that contacts to or support of local businesses is rather weak and only at a formal administrative level (chapter 5.2.2; INT Donocik, 28.07.2003). Concerning the local economic transformation, no 'big plans' can be identified, except the vague idea of changing the image of an old industrial city, but without a guiding or binding concept. Additionally, the provincial city governance seems to be rather closed and disconnected, so that the city's position in the 'new Europe' is by far not formulated. This lack of horizon becomes clearer in comparing other regional cities, which are much more active and dynamic than Katowice – in terms of attracting foreign investments and in the formulation of international oriented strategies.

## 6.2.2 Gliwice – Being on the Map of Europe

The city of Gliwice, which “had a bad starting point” at the beginning of the transformation period (INT: Morski, 23.06.2003) meanwhile belongs to one of the most successful Polish cities in terms of the attraction of foreign investment and is frequently ranked as number one in terms of ‘investment environment’.<sup>149</sup> Asked about the reason for this success, the deputy mayor of Gliwice, Janusz Moszyński, states three sets of causes, connected with the city history, its “human resources” and current political activities (INT: Moszyński, 08.07.2003).<sup>150</sup> In comparison with other Upper Silesian cities, Gliwice is an old city, founded more than 750 years ago and thus has a ‘tradition’ which differentiates it clearly from much younger adjacent cities. But even Gliwice’s industrial heritage is presented as an asset and as evidence of its innovation capacity, since it is where the first blast furnace on the European continent was constructed in 1796. All in all, the deputy

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<sup>149</sup> The city of Gliwice has about 208,000 inhabitants. In comparison to other Upper Silesian cities, the unemployment rate is lower, 14.3 per cent in September 2002.

<sup>150</sup> The administrative structure of the council is rather unusual with two strong deputy mayors who can act in a quite 'independent' fashion and supervise different strands of the city administration. The deputy mayor who was interviewed is responsible for local economic development, in particular for the attraction of foreign investment. The council is organised in a citizen-friendly way, where the clients are serviced by staff in one location. The city hall is located in the former 'Haus Oberschlesien', a mundane hotel built in the interwar period, which functioned as a secret military headquarter of the SS for the planning and attack on 'Sender Gleiwitz' [Radio Gliwice] on the eve of WWII, 31.08.1939, described in Horst Bienek's novel 'The Last Polka'.

mayor takes a historical view of the world, where path-dependent developments are presented in a long and linear way, where ‘post-socialism’ is not the outcome of ‘socialism’, but where the recent past must be seen in a much wider context of historical persistence.

*“Once when I was in Duesseldorf/Germany, one of the city historians showed us the riverbank of the Rhine and spotted to some hills of the opposite side of the river. He told us that on these hills were the most Northern camps of the legions of the Roman Empire, with the river Rhine as its border. He said that we can see the traces of this cultural division until today. After that trip I realised that when you can see cultural differences even after two thousand years, you can find these differences of course also in closer historical contexts” (INT: Moszyński, 08.07.2003).*

In doing so, Moszyński constructs a cultural identity which positively connects to the historical past as a Prussian and German city (until 1945) and thus mobilises this history as an asset for its current development. On the other side, the mobilisation of cultural relativism is clearly applied with the aim of distinguishing the city from the rest of the region.

**Photo 4: Gliwice High Street, 2003**



Source: C. Weis

This notion becomes very clear in the claim that the “human resources” of Gliwice are one cause of its success. The deputy mayor recalls the history of the Technical University of Gliwice, which was relocated from L’wow (today in Ukraine) after Poland’s Westward shift in 1945, a higher educational facility which “was not established from ‘zero’, but on the base of an old and good traditional university” and where “the generation of the old professors transferred the spirit of L’wow” (INT: Moszyński, 08.07.2003). Gliwice is the only city of Upper Silesia which received a significant number of urban elites after the war.<sup>151</sup> In the mayor’s eyes, the existence of well-educated and foreign languages-speaking graduates is one cause for the labour force’s higher flexibility and the establishment of more private enterprises in comparison to other cities of the region. As it has been suggested earlier (chapter 5.2.1), in addition to the settlement of academic elites after the war and their intellectual input into the city, the political-economic network which was created through this relocation seems to have been a more important factor. The majority of local decision makers studied at this university and are until now linked with this organisation.<sup>152</sup>

The former director of the local development agency in Gliwice, Wojciech Napierała, directly links this university network to the process of attracting GM *Opel* to Gliwice, a network which could be mobilised on a short-term basis in the mid 1990s, because the director at the time, today’s deputy mayor Moszyński, “knew many people of the

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<sup>151</sup> The majority of L’wów’s intelligentsia went to Wrocław after 1945. The situation after the war can be described as a competition between Polish cities to attract these elites. While the social and intellectual fabric remained relatively untouched only in few cases (such as Kraków), other cities such as Szczecin suffered from an intellectual gap, caused in particular through the war atrocities with millions of Poles killed, the extermination of Jewish Poles in German concentration camps and the expulsion of ethnic Germans after the war. In particular in the new Polish territories, the majority of city inhabitants were replaced by peasants and workers from East Poland (Lizak 2003).

<sup>152</sup> There is certainly a danger of overstating the importance of the Technical University or to selectively penetrate certain local circles linked to this organisation. Nevertheless, it cannot be a coincidence that, first, all top decision makers of the municipality (the mayor and all deputy mayors) studied at this facility and know each other from this time and, second, that many interview partners of the region referred to the university as an elite organisation.



university's environment, many of them in decision-making positions of the municipality" (INT: Napierała/Szymborski, 12.06.2003).

The idea of attracting a big investor was actually born in this agency. It can be described as a local think tank, which has developed and implemented innovative ideas in the first transformation period much earlier than in other Upper Silesian or even other Polish cities. For example, the first Polish 'business incubator' was established in Gliwice by the local development agency (and is still its main business area, sharing the same building). Asked about the decision to establish a business incubator and provide consultancy for small and middle-sized innovative companies in the early transformation period, the former director outlined the features of his business career which had already started in the early 1980s.

In these days, he established a privately-owned cooperative, which imported American-made personal computers illegally via Taiwan into Poland in order to work for the Polish defence industry with western high-technology on an informal contractual basis (INT: Napierała/Szymborski, 12.06.2003). The informality of doing business and the necessary mutual trust connected to this routine during the communist era apparently produced a set of closely linked and well-trained actors, who later went into local politics or city development. It is worth noting that the city's success in the capitalist era is, from this perspective, an outcome of socialist routines of informality and *kombinować* (see FN 130).

The example of how some of these actors attracted the GM *Opel* investment to Gliwice provides evidence for the functioning of a network, which is probably the reason for Gliwice's unique position in Poland and the region of Upper Silesia. Asked about the process of negotiations with GM, the deputy mayor describes two "milestones", which in the end led to the investment in Gliwice, following stiff competition between ca. 100 European cities. The first "milestone" was associated with the first arrival of the GM

delegation in Gliwice in the mid 1990s. The delegation was on its way from Radonska (CZ) to Kraków, in order to visit some of the possible investment locations and only planned a very short stay in Gliwice. Less than 48 hours before the delegation sent a detailed “questionnaire as thick as a book” to the municipality of Gliwice in order to discuss important points relating to the possible investment. The municipality and the development agency managed to organise a task force very quickly from different city departments and other experts who worked on this document without break until the delegation arrived in “a cold winter night”. The negotiations started immediately and apparently the first test proved “that we can do something and that we could talk to them without using interpreters” (all quoting INT: Moszyński, 08.07.2003).

*“The second milestone happened one and a half months later. We went together with one of today's deputy mayors to Warsaw and presented the GM delegation the exact time table of the process. For example, we provided them with information concerning the change of the master plan, the building permits etc., an exact day-by-day commitment we made regarding the legislative procedure. They were shocked. It was the first time that a city showed them that the change of a master plan takes at least five and half months, because of the legal procedure inscribed in the national law [...]. They said to us that we were the first to say honestly how long it will take” (INT: Moszyński, 08.07.2003).*

Today's deputy mayor and his municipal team convinced the GM delegation with their commitment, level of reliability and realistic appraisal of the legislative procedure to invest in Gliwice, where other mayors promised unrealistic time schedules. Asked about where he learned this kind of professional attitude he showed during the negotiations, the city leader admits that this can only be learnt by doing it: “If you are thrown into a swimming pool, you will discover that you can swim”. But the municipality had at least one more trump card, besides its human resources, historical heritage and of course the establishment of the local tax exemption zone and its newly erected infrastructure, fully financed by the city.

In 1993, a conference of regional city mayors came together, co-ordinating transport issues. Before the mayors met, the Ministry of Transport in Warsaw proposed the construction of a new North/South highway. The line of construction was to be thirty kilometres away from Gliwice, leading through the voivodship's capital Katowice. The director of the Upper Silesian Union of Municipalities, Ferdynand Morski, who was present during that meeting, describes the conference as a 'coup' for Gliwice, which is "excellently managed" (INT: Morski, 23.06.2003). Shortly before the meeting happened, the city council of Katowice decided that it would reject the proposed location line, probably because of scarce space available in the city. In knowing this decision, the Gliwice administration prepared a draft proposal, suggesting that the location line could pass nearby their city and surprised the whole conference with this suggestion. In the end, the decision was made and later confirmed by Warsaw, that the only Polish North/South highway, connecting the Baltic Sea with Slovenia, will lead through Gliwice. Additionally, years later, the decision was made that the West/East highway A4, to be completed in 2008 and connecting Germany with Ukraine, will also lead through Gliwice, crossing the North/South highway. In attracting this highway crossing, Gliwice will be the only Polish city with such an international crossing point.

*"You will find us on the map of Europe. When you look for the strategic communication [transport] corridors in Europe, you will find two of them meeting in Gliwice and this crossing will be named after one of our municipal districts – Sosnica [...]. On the main map of Europe where you see the country borders, the capitals and the motorways, we will be visible on that generated map. In fact, if this map does not show the voivodvodship capitals, we will be the only city of the region which will be shown" (INT: Moszyński, 08.07.2003).*

This level of self-confidence must be seen as outstanding in the region. Indeed, for the deputy mayor the region itself has no wider meaning, because adjacent cities do not quite play in the same league and "the region cannot help us, because we have the authority."

The vice-mayor compares the assets of Gliwice with Kraków or Wrocław rather than with Zabrze or Katowice, although he also recognises that some are not yet as strong - "I can understand that we cannot offer this kind of cultural life and will therefore lose investments". The international orientation of the city administration is also apparent. Poland's access to the EU – and the impact for the city of Gliwice – is viewed rather critically, because the mayor fears an immense brain drain of a few thousand well-trained workers, an assessment which was unique among the mayors interviewed. This also contradicts current fears in the West, which led to special EU arrangements regarding labour migration after the 1<sup>st</sup> May 2004: "All these stories about floods of un-skilled workers to the West are a big misunderstanding; the question is what are the dangers we are confronted with and what are our possibilities to avoid this [brain drain]" (INT: Moszyński, 08.07.2003).

Asked about the flow of capital, which might in future neglect his city and head further towards East, the deputy mayor remains realistic in assessing the possibility of avoiding this development, because he admits that tax levels and labour costs are controlled nationally and thus not controllable with the help of city policies. However, he doubts that countries such as Ukraine and Russia, which have in the latter case a corporate tax level of only 13 per cent, will be significant partners for investments from the West, as corruption is much more wide-spread and political instability notorious, "a fact we profit from". In the end, "we can make the city nicer, but what counts are not the soft points, rather the hard facts we are faced with on the national and international level".

### 6.2.3 Sosnowiec – Risky Public Investments

The young city of Sosnowiec (about 240,000 inhabitants), which received its city rights only about 100 years ago is located adjacent to the city of Katowice on former Russian

territory, on the fringe of the Dąbrowskie Coal Basin. Since the mid 1990s, the city administration has been developing city programmes, aimed at suspending the restructuring process of the steel and metallurgical sector as well as providing support for SMEs in the city (INT: Pająk-Gruszczyńska, 10.07.2003).<sup>153</sup> The decision to undertake comprehensive development planning, which includes not only infrastructural activities, but a wide range of social, cultural, and economic goals, was made to avoid “quickly changing political options” and a planning stability for the administration. The experience of constant programming led to the formulation of an incremental “Vision 2015”, an operation and financing plan, which is detailed every four years. The most important aim of this vision is the re-claiming and re-use of enormous derelict areas, near the city centre, created through the closure of four (out of five) coal mines in the mid 1990s. Like other cities of the dense agglomeration, a further expansion of Sosnowiec is not possible, thus green field developments like those undertaken in Gliwice cannot be realised. What remains are vast derelict areas, usually extremely polluted, requiring costly regeneration measures, before any public infrastructure investments can be realised or the search for private investors started.

The proposed projects – all of them in planning - can be described as ambitious. The highest-profile plan is the ‘Euroterminal’, an area at the fringe of the southern city border, approximately as large as the whole inner city. It is proposed that the former sand-pit of an adjacent coal mine should become an international train and road transport hub. In the neighbouring city of Będzin, an important goods train line terminates, which until recently connected the former Russian part of the region with Russian iron ore mines in the far East. While this goods train line is not in use anymore, it is proposed that the track should be extended for a few kilometres and end at the former sand-pit in Sosnowiec. Russian trains use a different gauge than western European trains, which complicates train transport

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<sup>153</sup> The city has one of the highest (official) unemployment rates in the region, exceeding 25 per cent (July 2003). The mayor estimates the real unemployment rate around 50 per cent (INT: Górski, 10.07.2003).

between West and East. In fact, only two train lines with Russian gauges reach from the former Soviet territory into countries of CEE, which are now member states of the EU.

What is proposed now is that the Euroterminal and the revitalised train line becomes the main trade artery between western Europe/CEE and Russia/Asia. Other planned projects include the establishment of an industrial park, focussing on innovative engineering companies of the recycling sector, the creation of a 'technopark', where old coal mining buildings will be reused for a newly founded higher technical college and the establishment of a newly built refuse incinerator. In particular the Euroterminal project reveals in what ways the otherwise negatively perceived socialist and even Russian pre-WWI legacy may be redefined and transformed into capitalist assets, even if the economic outcome of a project in such a dimension is not clear. The Russian gauge which is everywhere seen as handicap for the easy flows of bulk commodities becomes a unique asset and its former meaning as a colonial symbol recycled in new economic and political circumstances.

Between 1998 and 2001, the city of Sosnowic spent PLN 103 million (about GBP 18 million) on renovation measures in the city centre, mainly financed through communal obligations, which have to be repaid by 2007 (INT: Górski, 10.07.2003). In comparison to other cities of the region, co-operation with the Marshal's Office in Katowice is seen as very important and fruitful in terms of the acquisition of EU funds for some of the ambitious projects. The regional self-government is described as the only Marshal's Office in Poland, which expects local development proposals from the gminas and powiats, and co-ordinates these projects in line with the regional development plan and for further applications within funds of EU's 5<sup>th</sup> framework programme (INT: Pająk-Gruszczyńska, 10.07.2003). Not surprisingly, the current Marshal of the Voivodship is the former mayor of Sosnowiec (since 2002).

Photo 5: Sosnowiec Central Square, 2003



Source: C. Weis

The economic situation of the local special economic zone, part of the regional KSSE, is described as “difficult”, and in comparison to Gliwice, even as a failure, despite the fact that fifty per cent more people are employed in this area than in the Gliwice special economic zone. The reason for this development is seen in the area itself, a former coal mine, with dangerous underground movement due to unfilled former tunnels near the surface. Besides these infrastructural problems, most of the investors attracted only offer low-skilled jobs, as in the case of the biggest investor of the site, a meat factory.

Apart from the many innovative and ambitious ideas developed through the council, the question arises in what way all these projects can be co-financed with city funds or communal obligations respectively. The city is taking enormous risks that public investments may turn out to be misguided, while at the same time the city income is falling. The high debts already accumulated by the city are a burden for the budget and will – if any new projects are to be realised – even increase. At the same time, the city is reluctant in searching for private investors to use the form of a Public Private Partnership, because of unclear legislation and possible corruption accusations (INT: Pająk-Gruszczyńska, 10.07.2003).

### **6.3 Regions and Cities in the Process of Transformation**

This chapter has presented Upper Silesia's regional and local efforts to become a capitalist space. It is argued that without analysing the social, political and economic idiosyncrasy of the region and its cities the learning process towards a capitalist space is not comprehensible. The practical leeway at the regional level remains weak and is limited to programming policies, which focus on the creation of a more diverse fabric for its economic space, in particular with the support of structural and pre-accession funds of the EU. The shaping power of the regional self-government is restricted by the supervising central state, which is the main actor not only in terms of the privatisation of ailing large-scale enterprises, but also of smaller state-owned firms with high local/regional embeddedness. However, it has also been argued that the mobilisation of the region's historical experience as a contested political space, which gained a high degree of autonomy in the interwar period, provides evidence of the re-emergence of a regional identity. The socially constructed picture of a coherent spatial-cultural identity aims at preparing the region for its path of economic transformation towards the capitalist mode of accumulation. The historical identity of cultural diversity is politically mobilised as a tool for the region's vision of becoming an economically diverse space. Not surprisingly, the question of a spatial identity becomes a political battleground in the formulation of the region's future. The learning region in post-socialist contexts is a region that is capable of becoming a distanciated space, which connects and learns from other regions and organisations, mostly from well-established western countries. This learning process is highly shaped by path-dependent historical experiences and a set of traded and untraded interdependencies which also reach back into the socialist era.



The selection of a few examples of Upper Silesian cities and their social-economic post-socialist paths only gives a snap shot of regional differences in shaping restructuring. But the local level shows in what ways economic transformations may have different impacts and successes. While the difficult formulation of a common regional identity and vision is an ongoing dispute, the cities have fewer difficulties in mobilising the local past for future projects. In particular the examples of Gliwice and Sosnowiec provide evidence that the suggestion of urban elites falls short in explaining local economic success, if their networks are neglected. It is not overstated to claim that these urban political-economic networks reach into the past and that their existence is an important factor for local restructuring and the attraction of transnational corporations, which profit from well-established network properties. Cities such as Gliwice are not closely linked with regional decision makers, but have the (human) resources to directly connect to the national and international levels and are thus confident enough to face stiff competition. In the case of Sosnowiec, which has a very similar industrial legacy to Gliwice, and lost its economic base early during the first transformation period, the outcome of policies aiming on a competitive space cannot yet be assessed. But at least this example shows the difficult and risky path cities apparently have to take, if they want to restructure their local economies. The regional capital of Katowice, with an old industrial base as declining as in other cities of the region, may profit from its function as a central place in terms of administration and emerging small and middle-sized firms. But it can be argued that this functional advantage will diminish, if the city authorities hold on to un-linked (infrastructure) projects and an attitude of closed and provincial governance. Even a superficial glimpse at the other cities of the region gives evidence of greater dynamism and more ambitious efforts to challenge old industrial decline. However, Katowice's endowment with a growing service industry, main educational facilities such as the Silesian University and a large and young population at least has the potential to facilitate the restructuring process.

## 7 Conclusion: Inventing a Capitalist Region

It has been argued in this thesis that the economic transformation process in Upper Silesia is not a linear one of transition from a socialist to a capitalist market system, which started in the year 1989 (see also Pickel 2002:108; Dingsdale 1999:147). On the contrary, the transformation process is shaped by path-dependent decisions and legacies which even stretch beyond Poland's socialist past. This focus has been labelled 'continuity in change' and integrates the dimension through which actors utilised strategies and formal/informal solutions borrowed from the old system (Stark/Bruszt 1998; Tatur 2004:23). This chapter embeds the empirical outcomes into the theoretical framework and shows in what ways these legacies are *necessary* for the transformation process. It is argued that the creative recombination of economic (and political) routines not only supports industrial restructuring, but is often an important precondition for its 'success'. Moreover, these routines - or untraded interdependencies - are not seen as a hindrance to becoming a functioning capitalist territory, but as a necessity of the transformation process.

However, these inherited routines are not sufficient in shaping a capitalist economy. Here, it is contended that economic and political decision makers draw from 'useful' aspects of the region's identity to mobilise its capacity of transformation. The process of recreating and recombining institutions has been identified as a major force in becoming a capitalist territory, but its success is highly dependent on external, in particular international currents and (internal) regional elites being willing to formulate and negotiate a sustainable future. Whether this 'trial and error' strategy – a *bricolage* of new and old elements – will result in a western-style market economy or whether the interim 'outcome' might be rather an

elusive 'mixed economy' can still not be answered at this point (Stark 1992:52-53).<sup>154</sup> The capacity of experimentation and local/regional piecemeal approaches at least offers new opportunities and widens the scope for surviving in new economic and social contexts. At the same time the threats increase both for companies and regions faced by the putative logics of neo-liberal time space realities.

## **7.1 Learning to Become Capitalist**

The concept of the 'learning region' seems to be fruitful as a starting point in understanding post-socialist transformation processes (chapter 2.2.1). In this context it must be asked in what ways (and to what extent) these regions actually are learning regions. This perspective reveals all kinds of economic and political actors who are learning to redefine their socialist past and to acquire knowledge in order to learn how to become capitalist. Additionally, the "tracing of trans-local connections" (Smith 2004:22) is necessary to open-up regional analysis in order to understand the processes of knowledge acquisition and the continuing establishment of post-socialist institutions. As well as this more general systemic change, the case of an ailing old industrial region highlights the interwoven learning processes which are exerted in restructuring a former monotype economy. The case of post-socialist territories which are at the same time old industrial territories emphasises the difficult nature of the post-socialist transformation of the learning region. The processes involved – socialist to capitalist and old industrial to technical innovation – are highly interdependent and may be understood as a double learning process in which each informs and influences the other.

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<sup>154</sup> Altvater notes that the possible emergence of a mixed economy or "a 'third way' between capitalism and communism is viewed as a theoretically unjustified idea" (Altvater 1998:592), although many such mixed economies do doubtless exist.

The growing interest in learning has been associated with the emergence of a knowledge-based economy, with an increased importance for R&D and related investments as well as a qualitative change of production patterns (Malmberg 1997:574). 'Knowledge' and its economies is certainly a fashionable and under-theorised term, but at least it offers a concept focusing on "competencies to competitive success and of the economy as dependent upon knowledge, learning (...), adoption, and evolution" (Hudson 2001:35). In the following, a more detailed analysis of the regional 'learning actors' is intended to lead to a better understanding of the role of learning and knowledge production in post-socialist transformation processes. Additionally, the meaning of certain kinds of knowledge (tacit, codified) and external pressures plays a role in the analysis in order to assess the driving forces of a 'learnt transformation'.

#### 7.1.1 Local and Regional Self-Governments

The case study has shown that the elected regional actors are still in a process of coming into being regarding their political shaping powers and *de facto* authority. While their political influence in restructuring huge old industrial and still state-owned companies is very limited, the most promising room for manoeuvre is the attraction of EU funds and thus the widening of the regional administration's economic and political influence. These monies are provided for programmes, which aim at regional innovation, following certain regional economic strategies, such as the strengthening of small and middle sized firms. A number of regional organisations (and departments) were precisely established with the aim of attracting these EU funds and implementing the programmes associated with them. The attraction of EU funds, their absorption and expenditure, can be seen as a regional learning process, establishing this territory as a part of the European Union, supporting the restructuring process and increasing the region's capacity to act economically. External

actors – on behalf of the EC - act as *animateurs* to improve endogenous regional capacities (Landbaso/Reid 1999; Cooke/Morgan 1998:17-24).

Furthermore, the organisations and actors involved in this process draw from western European experiences to handle and implement these funds, organised in networks where ideas are exchanged – and outcomes are controlled. All these measures and experiences are aimed at enabling the regions to become capitalist territories, through a process of organisational learning - how to apply for and how to spend scarce public capital in order to ‘develop’ the region. While formal institutions and their organisations already exist, but the institutional infrastructure is far from ‘complete’, so it must be asked in what way informal institutions, attached routines and traditions inform this process of learning.

The thesis argues that the lack of formal institutions or their insufficient establishment is often balanced by the use of informal routines, for example in the case of public private partnerships, where illegal actions such as corruption occur or might occur. As a matter of course, not all of these practices are illegal. But certain semi- and illegal routines are not only an ‘unpleasant’ heritage of the past, which “distort the workings of the political system” (Karklins 2002:23) or even “threaten[s] to undermine the functioning of many public spheres” (EU Regular Report on Poland’s Progress Towards Accession 2002, quoted in McManus-Czubińska et al. 2004:107). These routines are economically understandable in times of change. On the other hand, if some of these routines do not become (re-)combined with new practices and sediment themselves in newly created formal institutions, they might fail to establish reliable social networks and to connect with other new and old regional actors - a relational capacity of paramount importance in order to reach ‘institutional thickness’ (Amin/Thrift 1994:14).

The making of new capitalist territories is highly dependent on a set of formal institutions which are capable of transforming former socialist economic sets and mediating capitalist relational modes. The establishment of newly created organisations, such as development agencies or commercial chambers, can be seen as transmission belts for this enormous task. As the case study has shown, these organisations are not only 'teaching' their clients in terms of 'good capitalist practice', but are themselves learners. But the 'curriculum' is mainly written in 'successful' regions with West European contexts. The process of becoming a capitalist territory is thus dependent on functioning and deepened co-operation between newly created organisations and western partners. While these relationships have not been studied in detail yet, it seems to be obvious that these partnerships are crucial for understanding post-socialist transformation. Western actors and regions are taken as models for this process. In this way, the learning region is a set of co-operative relationships between well-established actors from the West and their newly created counterparts in CEE, with the aim to 'trickle down' innovative organisational procedures and strategies in post-socialist areas.

The matter of 'region learning' – co-operating actors – which is a main asset of the region's capacity to innovate itself, is still in an early state. Indeed, a number of EU-funded programmes (RIS Silesia, Prelude) seek to address this issue by 'awareness building' among small and middle sized companies, local administrations and research organisations (chapter 5.2.2.). Besides the over-bureaucratic organisation of this project, the main problem seems to be the existence of 'different languages' among the participants. While some of the members have already internalised the need of co-operation and interaction, others are still in an earlier stage or have no understanding of the needs of business partnerships or even a lack of 'economic thinking'.

Moreover, the implementation of 'western-proofed best practices' in post-socialist settings is highly questionable, precisely because the crucial aspects of informality and inherited socialist routines are not addressed in these kinds of programmes. This means they are likely to fail because they merely aim to imitate well-established western capitalist routines and to streamline actors into that direction. 'Best practices' could be labelled as learning-driven "channels of convergence" (Gertler 2001)<sup>155</sup>, but in the form of certain EU regional restructuring programmes or the implementation of innovation strategies they lack what a region most urgently needs in terms of successful innovation: the focus on specific regional assets which distinguish this region from other areas.

This copycat attitude has been identified as "the most common tendency" (Amin 1999:371) in so called cluster programmes of industrial areas in Europe and is probably caused by a lack of alternatives or imagination. In the case of Upper Silesia the formulation of regional or local strategies reveals the gawky vision of responsible decision makers, which are all guided by one dominant concern: the attraction of (foreign) capital through the improvement of material 'infrastructure'. These hard assets are seen as the main tool of development, which "have traditionally also tended to be central to the normative aspirations of planners, reformers, modernisers and social activists to define their notions of desirable urban order: the good city" (Graham/Marvin 2001:12). By contrast, 'soft concepts', such as the establishment of learning networks in a knowledge-based economy must be rather seen as a decoration in regional and local development strategies, which are likely to receive additional funding of the EU, but in terms of regional budget allocation, regional innovation programmes are only secondary, not only in Upper Silesia (Hudson 1999a:61).

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<sup>155</sup> Gertler does not explicitly mention EU programmes as 'channels of convergence', but rather refers to more general institutions (e.g. media, education), trade regimes, FDIs or practices of management consultants (Gertler 2001:9).

As well as the provision of newly built transport infrastructure, higher educational facilities have been repeatedly described as a major tool for development in the Silesian Voivodship with the objective of creating “new political, cultural and managerial-technocratic elites – which (...) spread the values of restructuring projects” (Błasiak/Nawrocki/Szczepański 1994:89; see also Szczepański 2003:A14). It is understandable that a mono-structured region, defined for at least 150 years by its workforce and ‘hard-working ethos’, should see the need to widen its intellectual potential and human capital by extending its educational network. Indeed, the magic formula for the region and its cities is ‘education’. Thus, many efforts can be seen to establish new higher education schools, like in Tychy, Rybnik or Sosnowiec. The model of this strategy is not drawn from external experiences, but from the city of Gliwice which has been very successful in establishing and developing its Technical University since 1945. The educational level of Upper Silesians is still considerably lower than in other parts of Poland, which certainly affects levels of entrepreneurship and the extension of the private SME sector (Cybula 1998).<sup>156</sup>

Nevertheless, there is a danger that an over-supply of higher educational facilities may lead to a misallocation of scarce public resources. The Statistical Yearbook 2002 of the Silesian Voivodship itemises 33 higher education facilities with an increasing number of students between 1999/2000 (150310) and 2001/2002 (185989), an increase of 23.7 per cent in only three years (Statistical Office in Katowice 2002:125-133). The decreasing population of the region suggests that the establishment of new facilities is in the interest of local political actors who use these efforts for the extension of their influence, rather than for any wider economic purposes. In the territory of today’s Voivodship the population has fallen from 4.957 million (1990) to 4.830 million (2001) (ibid:28) and the projection for the year 2030 estimates 4.606 million inhabitants (ibid:42).

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<sup>156</sup> Cybula notes that “Protagonists of free enterprise like to say, that market losers should be given a fishing rod, instead of a fish. They should always add, that the losers are to be taught fishing as well” (Cybula 1998:214). One might add to this accurate observation that first, a lake or river with fish is needed to empower the market loser and second, that not everybody has the talent and patience to fish.



But this ‘best-practice’ attitude, in which every city leader suggests the establishment of a new or extended educational organisation, leads to increased competition between the cities over ‘scarce’ students. It must be doubted whether the sheer quantitative extension of student numbers will secure a high quality education. Quite the contrary, increasing work loads of lecturers – who often work at several universities – often leads to lower quality standards of the courses (INT: Gorzelik, 21.07.2003). However, it might also be argued that decreasing population levels in the voivodship – in particular the emigration of the most dynamic parts of the population such as young people – could be at least stabilised, if incentives like good educational facilities are created.<sup>157</sup> In the end, any efforts to widen the educational networks in this region should be balanced and not overwork regional budgets.

The concept of ‘development by modernisation’ is actually the continuation of the socialist development idea, a concept which has also been influential in western thinking, at least until the early 1970s. These similarities – or better shared common sense – should not surprise us since, “By adopting the capitalist heavy-industry definition of economic modernization (...) Soviet socialism had no alternative but to try to produce a utopia out of the production process itself” (Buck-Morss 2000:115). The similarities of thinking between capitalist ‘comprehensive planning’ and the socialist pendant are obvious – despite different scales and extents. It can be argued here that socialist planning routines, or at least the idea of the ‘good plan’ survive in the post-socialist world, for example, in the restructuring models of the coal industry or the regional development plan, which have strong technocratic notions. This heritage must be seen as a major obstacle to creating comparative economic advantages in the age of the ‘network society’, because these kinds of routines block the development of creative thinking and experimental efforts. The lack

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<sup>157</sup> This statement is optimistic. The case of the Ruhr/Germany is instructive in this regard. The establishment of an enormous higher education system in this region since the 1960s, with universities and technical schools in nearly every bigger city, could neither prevent the economic decline, nor the creeping exodus of its population.

of risk taking and the search for alternative economic pathways is also undermined by the European Union, which is rather interested in the unproblematic outflow of funds and their measurable impacts by the implementation of ‘best practices’.

### 7.1.2 Firms and Corporations

While elected regional bodies only administer ‘innovation projects’, the companies are the organisations within which innovation actually happens in the form of technological innovation - and even more important in this context – in the form of organisational innovation such as the development of a firm as a ‘superbrain’, which is constantly forced to perceive, interpret, evaluate information and has to learn how to connect and becomes part of networks – with the help of “cognitive and conative (action-oriented) capabilities” (Nooteboom 1997:68). Without these efforts, the restructuring of the regional economy in terms of diversification, product development and technological progress would fail.

The case study has shown that a homogenous economic picture of this old industrial region does not exist. Some of the state-owned industries (now privatised), in particular of the steel sector, are – despite the popular understanding of the structural difficulties they face – capable of innovating and ready for international competition. On the other hand, small and middle sized companies, which are presented in certain development strategies as the Holy Grail of future developments – often fail to innovate or to co-operate in the new business environment.

This description is certainly only a simple black/white picture of ‘real’ processes, but at least it shows that the distinction between ‘state-owned’ and ‘private’ or state and market is sometimes questionable. Apparently, state enterprises are capable of operating efficiently at a micro level and conversely, the (transformation) market is not always capable of

generating viable businesses. This rather evident – but anti-mainstream – reflection signifies the role of ideologies (not only) immanent in the study of post-socialist territories, where “scientists, ideologues and dogmatists use their scientific credentials to pronounce on issues that are beyond the scope of science in general or beyond the scope of their disciplinary knowledge” (Pickel 2002:110). Indeed, while neo-liberal economists still follow the advisory-relevant ‘systemic change by design’ paradigm, geographers and other social scientists are “perceived as not possessing knowledge particularly relevant to the practical problems of transformation” (ibid:112). Whatever ‘practical’ means in this context, the following sections at least inform the reader about some very practical implications for firms in transformation territories; whether these observations contribute to a further understanding of post-socialist transformation in general may be uncertain, but at least they “challenge many of the comfortable assumptions unleashed by the euphoria of democratisation and the triumphalism of market capitalism (...)” and give evidence of “complex and highly differentiated regional systems of adjustment” (Smith/Pickles 1998:20).

Both, state-owned and private firms, have one aspect in common - the lack of capital - and both sectors try to by-pass this difficult situation with strategies or routines which are traceable to the socialist past, for example the re-establishment of barter deals or the reactivation of old networks which guarantee mutual support in times of a declining economy. However, the application of old routines or the remobilisation of supporting networks is only sustainable in short temporary periods and must be combined with new efforts to open up social relations.

In particular within a (passing) survival economy, where these routines seem to be important, proximity advantages of the agglomeration play an important role. Thus, the geographical, social and cultural space of doing business must be seen as decisive in

‘survival times’, no matter whether for state-owned or private companies and despite different hierarchies and strategies. A main problem of economic regeneration in the case of an old industrial area in a post-socialist setting, is exactly that these both worlds – ‘monostructural old industries’ and smaller/middle sized companies are in no way positively connected. Quite the contrary, the disconnection of these ‘regional worlds’ is a main obstacle in the formulation of sustainable economic development, particularly if these firms operate in different realms of production and knowledge acquisition.

For both worlds, finding and implementing strategies of survival in transformation periods can be interpreted as a learning process. This learning process is in fact an adaptation to a new capitalist mode of doing business. In contrast to the biologicistic notion of the ‘survival of the fittest’, this capacity is, rather, dependent on the creative use of functioning social networks which mutually support its members as well as the creative recombination of routines.

Multinational firms are also engaged in a process of learning. While these firms are the main protagonists of economic regional change, their interaction with ‘indigenous’ firms or actors is highly selective. Investment decisions are not only dependent on geographically well situated places and cheap labour costs, but the existence and identification of well-functioning *local* networks, which provide a certain guarantee for the profitability of their investments. Besides aspects of reliability, existing political and economic local networks provide a communication channel pivotal for their interaction in transformation spaces. The ‘implantation’ of external, globally connected firms in post-socialist settings is actually dependent on a well-skilled and flexible workforce, which is willing to quickly adapt capitalist modes of production and to overcome ‘old routines’ which are assessed as negative, such as the internal organisation of labour interests. Both, the discipline of the workforce and at the same time its rather unorganised structure (in terms of union

organisation) make multinationals interested in investing in CEE. While trade unions such as Solidarity were on the forefront of democratic change and market reforms before 1989, their “contradictory position with regard to the transition” (Herod 1998:206) – advocating neo-liberal policies and at the same time seeking to minimise job losses in the declining industries created by these policies – has certainly weakened the political bargaining power of these organisations. The contrasts of labour processes in Upper Silesia – capital-serving unorganised employees of multinationals and hierarchy-opposed street-fighting miners on the other side – provides evidence of a micro-cosmos of the spatial division of labour, and shows in what ways historical and geographical specificity results in social and spatial process, which cannot be separated from each other because “there are no purely spatial processes, neither are there any non-spatial social processes” (Massey 1984:52).

Multinationals additionally tend to identify positive aspects of the old system and try to connect to the region’s identity with the main purpose of presenting themselves as an ‘indigenous’ or, at least, newly rooted firm, interested in and engaged with the region’s historic and economic heritage. In taking this path, multinationals significantly influence the region’s search for a newly interpreted identity and considerably shape the transformation process as “it is precisely because areas have different histories that the arrival of a new form of economic activity has in each case distinct social and economic results” (Massey 1984:121-122).

Indeed, economic change and processes of innovation are measured by the influx of foreign capital (Altomonte/Resmini 2001). It is believed that these investments not only create new workplaces or modern infrastructure (Radošević/Varblane/Mickiewicz 2003), but also work as capitalist ‘lighthouses’, which guide the region and its actors through the uncertainties of economic transformation and thus provide stability (Waresa 2004). But this capitalist ‘godfather’-role is in no way a one-sided process. While ‘indigenous’ players

are learning from multinationals how to do capitalist business, multinationals are learning how to make profits in transformation markets; in this way it is a mutual process of learning – but with completely different sets of power, not always to be interpreted as domination.

A possible weak point of the concept of knowledge/learning/innovation is the lack of engagement with modes of power and their influence on spatiality expressed in current institutionalist work. These approaches offer “a rather one-sided view of power, privileging processes of interfirm cooperation and collaboration (power to) over the relations of conflict and dominance (power over) which were recognised (if not conceptualised) within the older tradition of insitutionalism” (Cumbers 2003:328). This dominance (power over) has been also recognised in the case study region, where multinational car producers control vertical production networks and thus creating hierarchical spatial structures with enormous consequences in terms of inequalities not only for the region of interest, but the international reconfiguration of the whole *filière* and its geographical context (see also Massey 1984:85-93). On the other hand, other modes of power are also in play, including ‘seduction’, where the irresistible fascination of international players and their management professionalism plays a role in teaching small and middle-sized companies ‘good practices’. The matter of ‘innovation’ and ‘economic knowledge’ draws heavily on a cognitive “monolithic” discourse in economic institutions, focused on how to define and produce codified (cosmopolitan) and tacit (non-cosmopolitan) knowledge in order to create a ‘knowledge-based’ economy, a discourse which is linked with “the power to make itself ‘true’ by association with those activities which legitimize it” (Allen 2000:18). It is probably the ‘obliviousness’ of ‘innovation’ and how to reach it what makes it difficult for political or economic actors to step aside from this discourse and to try new paths and experiments, embedded in a “symbolic economy” (ibid:22-24).

This quickly changing economic environment is a learning laboratory for multinationals (Bockman/Eyal 2002). In these kind of settings new routines between management and workforce are tested which may later be applied in well-established production places in the West. These eastern laboratories are already being used to put pressure on wages and privileges in the West. From this perspective, the eastern laboratory is a 'learning' facility for western capitalists and a useful instrument to limit the power and opportunities of labour relationships which have been established within the last decades in the West. The notion of 'globalisation', which is explicitly handled as an inevitable process of 'new realities' is in fact a well controlled new set of labour relationships, tested and expanded in new capitalist spaces in CEE which re-draws the production map of Europe, offering "new opportunities to both companies and regions, but they also pose potential threats to both" (Hudson 2002d:3). The relocation of production (or the threat to do so) is, of course, not a new phenomenon. What is new is that the receivers of foreign investments are post-socialist areas close to the established western markets, where it seems to be easier to maintain and expand the interests of multinational corporations. The geographical and cultural proximity of these areas is from this point of view a useful and very concrete tool to keep in check western standards of labour relations on the one side and to create new forms of uneven development on the other (Hudson 1999a).

Understanding post-socialist economic transformation is precisely the study of spaces where old and new networks constitute themselves and socially interact. The outcome of these interactions generates new sets of actors, redefined and recombined routines, which are significantly different from that what has been analysed in similar western regions. The main argument of this thesis is that the process of redefinition, in fact the reflexive application of *bricolage*, is most important for a 'successful' transformation. This means that old elements are tested in new circumstances and survive when their social and

economic value and usefulness is positively assessed. This process of testing is in fact a learning and adaptation process and might lead to innovation. On the other hand, old elements that are not productive will die a 'natural death' or – in the worst case – survive artificially because certain interest groups are still powerful enough to prolong their existence. The latter case is not a learning process, but a matter of hierarchies and reaches into the political realm of transformation. If this sort of routine continues its life, possible lock-ins occur and hinder regeneration and innovation processes, because economic actors do not stand the "fitness test" (Grabher/Stark 1997:535). Old and new elements are in a constant process of re-combining; both worlds are equally important in this perspective. While the old elements help to avoid cultural 'shock-effects' and alienation from the capitalist project, the new elements help to adapt to the necessary sets of economic relations.

## **7.2 Trust and Networks in 'Emerging Markets'**

The existence of social and cultural capital, in particular a set of cultural norms and routines, spatially embedded in networks, has been widely linked with regional economic development (chapter 2.2.2), also in Upper Silesia (Cybula/Szczepański 1998). Apparently, the existence of informal institutions facilitates co-operation between organisations and political or economic actors. Indeed, this social interaction is spatially embedded, supported by geographical and cultural proximity, usually practised by face-to-face contacts within certain networks. The case study has actually shown that networks, as a base of building up trusted relations, do exist or are about to be created. While recent studies on Upper Silesia tend to focus on a specific set of cultural norms such as the Catholic faith, family values or a strong working ethos as a common sense shared by



interacting networks and people, less has been said about specific routines of 'doing business' in post-socialist contexts.<sup>158</sup>

### 7.2.1 Identities and Histories

Moral values and traditions seen as important assets – or obstacles - to the region's capacity for innovation and restructuring have been regularly defined as strong cultural aspects, which distinguish Upper Silesia from other Polish regions. Undoubtedly, these informal institutions do exist and inform a good part of everyday practices in the studied region. But in what way does this social and cultural capital shape economic restructuring and innovation processes? Common values or historical legacies are certainly relevant to the creation of trusted co-operation or the opposite, but this one-sided approach or, better, this cultural and historical determinism is insufficient for an understanding of post-socialist transformation.

It rather seems to be that the claiming of 'traditions' is connected to a pre-socialist time period or a re-discovery of regional identity which has long passed away (and never existed in that homogenous sense anyway). It is suggested that in the case of post-socialist territories the concept of 'the region' (and all places) "as open, discontinuous, relational and internally diverse" (Allen/Massey/Cochrane 1998:143) offers an insight into the process of becoming a capitalist space, even if this definition is a "possible approach but not the only one" (Hudson 2003:584).

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<sup>158</sup> In the case of Upper Silesia, the sociologists Cybula and Szczepański identified three reasons why "social capital is both weak and incongruent with the requirements of the adaptation to change" (Cybula/Szczepański 1998:218). First, the 'cultural norms' of the region do not support entrepreneurship and adaptation of workers faced with quickly changing circumstances. Second, the communist heritage with its patron-client relationships considerably weakened social ties and demolished civil society as a whole. Third, the influx of migrants during the socialist era "additionally weakened Upper Silesian communities" because of a lack of efforts at integration of the migrants after the war, which led to an "ethnic and cultural mix" (ibid:219). This pessimistic estimation is probably based on a very restricted definition of the 'the region', which is seen as a rather closed and homogenous spatial entity, endowed with a well-defined set of indigenous people conveying 'regional traditions'.

The process of re-discovery of historical implications (e.g. the legacy of elected regional self-governments) and the re-definition of cultural assets is definitely part of the cultural and economic transformation process of a post-socialist region. From this perspective, the 'identity project' is a political and self-legitimizing tool for creating trust and self-assurance among the electorate and among emerging political and economic networks in uncertain (economic) times and thus focuses on the mobilisation of the region's population and its actors. The definition of a region incorporates in this sense its social relations and refers to "a complex and unbounded lattice of articulations with internal relations of power and inequality and punctured by structured exclusions" (Allen/Massey/Cochrane 1998:65). The reconstruction of social, cultural and historical implications in Upper Silesia is in fact an ongoing dispute over the sovereignty of definitions, the articulations of political and economic interests and thus a political, power-imbued project which very much refers to the negotiation of possible futures of the region. The group of actors with the best adaptation and learning capacities, capable of recombining the routines of the past with the demands of neo-liberal thinking will in the end succeed and extend their networks of action.

The assertion of 'hard working people' as a typical regional tradition is in fact drawn from the region's legacy of being old industrial. Ironically, this asset is now conveyed to give evidence of the labour force's commitment for 'modernisation' and the whole region's capacity to innovate itself through its social capital and by the means (and attraction) of foreign direct investment. The process of re-inventing a former socialist region is actually driven by certain groups and their interests, a project which focuses on political legitimacy and the creation of trust – trust created by formal and informal institutions in a relational way and not, as Putnam might suggest by, the society itself (Mohan/Mohan 2002:195); whether these networks are actually linked and whether these networks and their socially

constructed norms are more “likely to serve broader interests” (as Putnam also suggests) will be discussed in the next section.

### 7.2.2 Connectedness and Embeddedness

The building of vertical and horizontal networks and their openness, their density and intensity of internal and external interaction has been described as a key indicator for the capacity of regional innovation and development (chapter 2.2.2). While ‘weak ties’ or ‘loose coupling’ are helpful for the purpose of quick adaptability and learning, where ties are too strong, or there are ‘lock-ins’, this has the opposite result (Cooke/Morgan 1998:72-76; Grabher/Stark 1997:537-540). Certain networks, endowed with specific sets of conventions fail to communicate and interact with outsiders.

The restructuring process in Upper Silesia is a useful case study of analysing existing and emerging networks, as well as their interaction and spatial-cultural embeddedness. One of the assumption of this thesis was, that the political and economic transformation process in post-socialist territories generates a distinctive set of actors, who are actually embedded and organised in strong networks, an asset deriving from the socialist past (Stark/Bruszt 1998:122). Indeed, these networks could have been identified, but the *de facto* political support for innovation networks has been described as insufficient window-dressing or as a top-down attitude which rather sediments the routine of patron-client relationships (Cymbrowski 2004:69-72).

It has been argued that the reconfiguration of post-socialist power structures leads to a process which has been labelled as ‘plan to clan’, an economic transformation process generating ‘involution’, “[in the case of Russia] – an imploding world in which a merchant bourgeoisie forged from the old nomenklatura raided the economy to produce primitive

disaccumulation, a return to peasant society, a retreat to self-provisioning, the expansion of petty commodity production and of primitive barter” (Burawoy 2001:112). Burawoy uses the Russian example to challenge Stark/Bruszt’s claim that “communist origins are critically important to post-communist outcomes” (ibid.), a claim which has also been taken up in this thesis. Evidence in support of Burawoy’s extreme assessment of post-socialist transformation cannot be found in the case study, at least not in a regional context. The reason for this absence of regional mafia-like structures can be explained with the help of an analysis of economic-political power configurations.

The restructuring (and privatisation) of Upper Silesia’s heavy industry is centrally controlled by the state. It has been shown that regional self-governments are in no way involved in this process, except with the social-economic impacts due to the enormous increase of unemployment and derelict polluted land. Apparently, non-regional networks in charge of privatisation of the main state-owned assets are isolated from regional decision makers. But the outcome of this ‘isolation’ – from the perspective of evolutionary economics this would probably be seen as a hindrance to innovation – is actually the avoidance of excessively close ties between regional and national groups of actors. The emergence of political-economic and regional embedded networks (or ‘unholy alliances’) who would (also illegally) privatise public profits could not be identified; a regional lock-in does not happen in the case of the state-owned sector, because it followed a “‘vertical’ orientation (...) towards the centre in terms of institutionalisation and networking, which was preferred to developing ‘horizontal’ relations within the region” (Cybula 2004:270).

But this general picture has to be detailed. It is not being argued that illegal or intransparent proceedings within privatisation efforts of the heavy industry do not exist (of course they do, but these networks have a national base), but in terms of network constellation, the disconnectedness of regional and national networks seems to have been

an advantage in the restructuring process, which is implemented ‘anonymously’ – or, more precisely, without a local or regional political legitimacy<sup>159</sup> – a fact that certainly allows ‘less hesitant’ action and quicker adaptability to the needs of the market, which strengthens the position of the person or agency engaged in restructuring, but not the worker. What has to be said is that unlinked networks are not an obstacle for regional restructuring or innovation in every case. From this perspective, the centrally organised state (in contrast to the federal system, where these ‘holy alliances’ would be more likely to evolve) seems to provide an advantage, at least in terms of restructuring/privatisation of state-owned assets.

Discussing the restructuring of Bulgarian state enterprises, Pickles sets out some possible outcomes of this process:

*“(a) an extension and deepening of horizontal networks and barter arrangements that were typical of the classical model of state socialism; (b) residual forms within inefficient industries that will, in time, give way to more formal market arrangements based on prices and economic rationality; or (c) new or old hybrid forms that signal an alternative, emergent model of industrial organisations, what Michael Burawoy calls ‘merchant capitalism’” (Pickles 1998:187).*

In the case of Upper Silesia, it must be pointed out that the networks of state-owned assets of the heavy industry are and were rather vertically organised in terms of control and supervision. However, in terms of barter arrangements– business relations – these networks are horizontal or regionally formed. The outcome of restructuring for Upper Silesia is closer to the variant outlined in Pickles’ point (b) – but with the mechanisms and routines described in point (a).

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<sup>159</sup> Cybula stresses that this un-connectedness “left regional actors in relative peace to do what they saw as appropriate” (Cybula 2004:270) and thus empowered local/regional “non-heavy industrial communities” (ibid:271) as well fuelling a free public discourse about the condition and future of the region.

The case study has shown that the coal and steel sector in Upper Silesia has generated varying outcomes of an ongoing restructuring process. While some parts of the steel industry could be successfully restructured and privatised, the major part of the still existing coal industry is 'lagging behind', as production remains unprofitable, internationally uncompetitive and thus partly threatened with closure. The resistance identified in the coal industry must be seen in the light of what has already been reached in terms of downsizing and entrenchment. It would, however, be an exaggeration to speak of a lock-in, as causing these 'delays'.

In the case of the steel industry it has been shown that 'lagging behind privatisation' was a key to its success and that the strategy 'restructuring before privatisation' was in the end the most appropriate. Certainly, the international boom of steel prices has helped the restructuring process of this industry and its partial privatisation. That means that just as the initial starting points of the coal and steel industries – in terms of possible market success - have been different, so are the outcomes. The discussion of the coal sector (in chapter 5.1.2), identified 'traditions' and conventions of networks, including political decision makers, strong trade unions and the managements which can be probably defined as 'closed', but the introduction of an outsider as the head of the biggest European coal company has not led to improved communication between these groups –at least it shows that this restructuring process is also open to non-members of these interlinked networks. In the end, it is the enormous task and its national and international implications, in particular politically, which makes the restructuring difficult and not the existence of excessively strong internal and external ties among the actors. However, it must also be acknowledged on the basis of this case that the 'embeddedness' of regional networks does not create either a guarantee or remedy for innovation or the capacity to restructure.

Like the state-owned (or privatised) industries, the multinational corporations are also disconnected from 'the region' and its political actors, but rather tend to link up locally and nationally. It turns out that regional contacts are simply not perceived as necessary. One reason for the lack of these connections is that regional self-governments are a rather new phenomenon, until now only endowed with basic authorities and thus not a useful co-operation partner for firms that want to invest locally and not 'regionally'. Indeed, in the case of regional economic policy, the elected government tries to act more like a mediator between different groups of actors than an independent actor who sets out binding and respected procedures, and this is probably all that can be expected. This emerging 'mediation' or programming role is mainly addressed to regional or local development organisations, higher educational facilities and small and medium-sized companies. Analysing these kinds of emerging networks, suggests that the absence of effective linkages between regional administration and multinational corporations tends to hinder the sustainable implementation of economic related projects and the achievement of deepened co-operation. While the absence of regional linkages to the state-owned sector has probably been helpful in the restructuring process, in the case of multinational corporations the assessment is the opposite.

### 7.2.3 Regions as Economic Actors

It has been argued that "regions are not real actors" (Bathelt/Glückler 2003:121), because economic processes are shaped by the action and interaction of *firms* and networks of firms (and not by 'regional actors'). Thus the core of a theoretical framework in economic geography should not focus on space and spatial categories, but be focused on the understanding of economic actors and their organisations (ibid:124). It is argued here that this statement is at least misleading. 'Regions' are inhabited by human actors, not only in a political sense, endowed with (limited) authorities and legitimacy, but also in an economic

sense and in particular in a social sense which makes them capable of linking up with other actors and building networks that have multiple intentions and interests. While their *capacity* to act economically is definitely restricted to the formulation of non-binding strategies and policies, at least ‘regions’ try to extend their influence on projects which focus on ‘the economy’, thus a *willingness* to control is observable. While ‘the region’ is a socially constructed and abstract spatial entity, the consequences of this (re-)invention are very comprehensible. In the case of Upper Silesia, Amin states that identity building *and* the articulation of a regional economy are combined processes which are being used to foster integration into the EU (Amin 2004:35; see also Bialasiewicz 2002:124-125).

Even though the impact of these ‘regional actions’ are limited, it would be too far reaching, if the “core of a theoretical framework” in economic geography were to neglect political and in particular formal and informal institutional processes at a regional level, such as the extension of authority (e.g. the ongoing decentralisation process) or the recombination of economic routines. Moreover, co-operation partners of ‘regions’ are increasing international. As this case study has shown, an understanding of economic transformation processes in post-socialist territories would not be possible without incorporating external effects, in particular the European enlargement process with its networks, partnerships and institutional straightjackets. In this case study, the ‘spatial category’ plays a crucial role in understanding (subjective-) rational decisions of economic actors, such as barter trade. While this non-monetary transaction routine might be a special case in ‘emerging markets’, it is actually heavily dependent on geographical and social proximity and thus a spatially embedded routine which helps to reduce transaction costs.

While economic geography (and mainstream economics in general) has long been neglecting decision processes within firms, it is fair enough to stress the necessity of extending the ontologies with the objective of better understanding spatial-economic



change, because “what is needed is research into how complex production systems are organised in time and space which recognizes that business enterprises play a central role in this process” (Dicken/Thrift 1992:288). Indeed, it is agreed that the ‘real’ economic actors of a given region are firms with their economic interactions. But it would be an overstatement to assume that firms are the only players, in particular in post-socialist settings where political and other actors are actively engaged in the process of (re-)inventing and socially constructing capitalist regions and their ‘identities’. While this construction might be ‘unreal’ (and loaded with political interest), the outcome has certainly ‘real’ consequences on economic transformation. In transformation economies and their “strange geographies of ‘emerging markets’” – actually driven by a “combination of interests and agents” (Sidaway/Pryke 2000:194-195) and mainly organised on a global level - the colourful and multi-folded economic dynamics are definitely not only shaped by one actor group. Thus, it is necessary to incorporate and to identify as many as possible. This multitude is not aimed at constructing a comprehensive, complete or “whole” (see Allen/Massey/Cochrane 1998:65) picture of a region and its economic processes, it aims rather to identify unexpected but important social linkages between actors and networks and their spatial articulation, definitely a crucial point in relational economic geography.

### **7.3 The Holy Trinity in a Post-Socialist and Old Industrial Region**

A regional economy, defined as “an assemblage of heterogeneous, broadly rational agents, with imperfect learning and information” (Storper 1997:64), which is capable of technological innovation and spillovers produces a specific knowledge base, formal and informal institutions and organisations which are “highly regionalist and necessarily dependent on geographical proximity” (ibid:66). All these traded and untraded interdependencies, such as a highly qualified labour force, research institutes, state

agencies, embedded rules and routines, in particular business and public-private relationships, have played a crucial role in the analysis of the case study region.

While Upper Silesia was once a 'core region', endowed with a collection of firms with a significant concentration in complementary industries, its position at the forefront of technical innovation has been declining as industrial knowledge has become 'cosmopolitan' and stopped being dependent on this specific area. As a result, Upper Silesia can now be seen as an important non-core region which has to compete with firms in other regions, using technology which can easily be imitated (Storper 1997: 78-80). Superficially seen, the evolutionary trajectory of this old industrial region is, of course, by no means unusual, as this 'process of modernisation' has taken place in similar heavy-industry regions worldwide.

From this perspective, only the artificial maintenance of these industries during Poland's socialist period prolonged the survival of some of its most inefficient parts as capitalist mechanisms such as market competition or the necessity of technological innovation were replaced by a hollow political (or rather ideological) and cultural image of being on the forefront of socialist progress, a model region of socialism with a 'human face' which will in the end "overtake (...) the industrial successes of the corrupt West" (Krawat 1999, quoted in Bialasiewicz 2002:118). But the case of an old industrial *and* post-socialist region is significantly different to what might appear to be similar trajectories in the West, as the opening-up happens in a certain space/time context that distinguishes central European economic transformation from western 'structural change'. It is not only the time-parallel political, economic and social transformation in post-socialist territories which affects questions of restructuring or technological change - recognised in this thesis as a very dynamic recombination of regionally and locally embedded sets of actors and routines. The currents of neo-liberalism - embedded in the ideology of globalisation and

open markets - are additionally necessary to understand processes of (economic) transformation in post-socialist countries, and thus help to conceptualise and distinguish peculiar processes. As the political and economic processes in Upper Silesia have shown, almost every main issue of restructuring and transformation refers to this region as a space of 'actually existing neo-liberalism', identified in "the deregulation of state control over major industries, assaults on organized labor, the reduction of corporate taxes, the shrinking and/or privatization of public services, (...), the enhancement of international capital mobility, [and] the intensification of interlocality competition (...)" (Brenner/Theodore 2002:350).

Thus, the analysis of a post-socialist region cannot be limited to its internal sets of actors and decision makers, but must also focus on the region's external connections. The analysis of external interactions not only makes clear a certain degree of openness and 'willingness' to learn from outside experiences, but also emphasises the region's vulnerability and dependency in terms of outside pressures and thus determines a limited leeway for action. Despite these external frameworks and space/time constraints, the emergence of a peculiar way of 'doing business' can be observed, which raises the suggestion that business routines of new capitalist regions do not (entirely) converge with the routines of old capitalist regions in times of neo-liberalism, but that the post-socialist context produces an idiosyncratic technique of becoming a part of globally linked networks and flows.

### 7.3.1 Reflexivity and Bricolage

At this point it is suggested that Storper's claim of the 'reflexive turn' as being one of the major capitalistic meta-forces of recent years proves to be embedded in the analysed post-socialist case. Reflexivity refers to the possibility of actors "to shape the course of

economic evolution” (Storper 1997:29) which includes ‘unreal’ interpretations and constructed images of reality on which individual and collective actions may be based – actually the motor of capitalist evolution such as markets or prices - while the outcomes of these social constructions have a ‘real’ impact on the economy. The ‘invention of a capitalist region’ is precisely rooted in these mechanisms of reflexivity (e.g. the establishment of a region as an ‘actor’). But the new opportunities are of course heavily limited by external straightjackets, for example, through the adaptation of EU legislation or the locational decisions of global corporations and intra-regional hierarchies, such as access to certain political-economic networks. Indeed, Storper stresses that reflexivity is not free from constraint – which reflects a long-lasting discussion within social sciences and philosophy revolving around issues of free will and determinism, but in the end he acknowledges that the “variety of concrete empirical possibilities for the organization of markets, firms, and other institutional spheres of economic and social life have been vastly increased” (Storper 1997:30) by the metacapacities of capitalism, in particular by reflexive interaction.

Storper’s emphasis on reflexivity, and the ‘loose constraints’ on economic actors incorporates a strange silence on the uneven power of economic and political actors, which affects all regional trajectories. In contrast to this absence, chapter 6 of this thesis has provided evidence of the diverse local developments in selected Upper Silesian cities and the historical legacies which are politically used to redefine the region’s economic identity. It is argued that this process is characterised by a struggle for economic and political power which makes it possible to speak of an emerging competitive and capitalist urban environment. Alongside this “instrumental” form of power (the ‘power over’), “associational” power (‘power to’) as a form of collective empowerment, is clearly evolving in post-socialist contexts. Moreover, it is argued that the latter form of power might be at least as important in defining the mode of transformation, because in post-

socialist contexts the collective capacity and the interlinked mobilisation of resources are the most reliable and trusted assets in ‘surviving’ the hardship of system change. Storper’s concept of the holy trinity does not really focus on aspects of power and politics, in part because of a general tendency in institutional and evolutionary approaches to neglect aspects of dominance (the power over) or the shaping of economic discourses and identities as one form in which such power might be exerted. However, one consequence of this is that the significance of political power relations and their construction is underplayed and this is particularly apparent in the making up of Upper Silesia as a post-socialist region. Although other forms of power are core aspects of institutional analyses, in particular the co-operation and collaboration between economic actors, they are often presented in a rather ‘clean’ and technical manner, neglecting the transformative politics of deliberate association.

The argument of this thesis has also linked the process of ‘doing’ politics in post-socialist regions with the politics of identity and the recovery of a regional identity. The reflexivity of this process and the actors involved might have been expected to yield an identity of mixed, diverse and alternative fragments, but the contrary, the actual political presentation of Upper Silesia as a coherent cultural space aims at preparing the region for its path of economic transformation towards the capitalist mode of accumulation with clear neo-liberal values – and this is definitely not a coincidence. In this way, a variety of possibilities is not given, but determined by those political and economic networks which have the power to define or shape such a socially constructed picture.

On the other hand, this ‘variety of possibilities’ is what has been observed in an emerging new capitalist territory, where the recombination of old and new elements or the heritage of ‘socialist’ routines blends with new and capitalist routines, which has been identified as a *bricolage* of formal and informal institutions. Introducing the term *bricolage* incorporates

the danger of adding another ‘fuzzy concept’ to the realm of relational economic geography (Markusen 1999). But, there seems to be no alternative than of accepting fuzziness as a necessary stage in developing ideas, seen as a collective project of scientific learning.

The quality of economic change and restructuring, the nature of post-socialist transformation itself with its underlying social interactions is – for the time being – something significantly different from what has been described in western contexts and this process is the result of reflexive interactions embedded in an idiosyncratic spatial post-socialist context. In this context, reflexivity is the driving force of testing old and new elements for their effectiveness and appropriateness in an emerging market, within which the ‘survival’ of the old is mostly dependent on its creative blending with adapted capitalist techniques and routines. From this perspective it is possible to think of post-socialist economic transformation as a process of reflexive and creative recombination of traded and untraded interdependencies.

Post-socialist untraded interdependencies, seen as conventions and the relations in which they are effective, are in a constant and flowing process of re-configuration of old and new elements, here labelled as *bricolage*. Michael D. Kennedy claims that a similar idea of recombination and thus a concept for understanding the dynamics of post-socialist capitalism in general was first introduced by József Böröcz, who described ‘fusion’ as a “creative reinterpretation of old and new elements, creating substantively distinguishable qualities of social experience” (Böröcz 1995, quoted in Kennedy 2002:145). However, the connotation of ‘fusion’ suggests an irreversible process of generating a routine where its different elements are becoming *indistinguishable*. On the contrary, in this thesis it is suggested that the process of recombination is a constant and ongoing search, through which the elements that are mobilised happen to be tested and possibly rejected after a

while, if they turn out to be inappropriate. The idea of the *bricolage* of conventions is consistent with Storper's understanding of reflexivity and the possibilities of rational bounded actors who socially encounter each other, but reinterpreted for the case of post-socialist transformation.

It has been shown that in some cases the process of recombination could be explained as the subjective rational behaviour of economically and spatially acting persons or networks of actors, despite the fact that in 'transition culture' every aspect of the socialist heritage and thinking is rejected and must be avoided by 'East Europeans' "for fear of being tarred with that label" (Kennedy 2002:147). The French term *bricolage* captures the idea of 'do it yourself-practices', a constant process of learning how to construct or to alter a house in a rather semi-professional or even amateurish often incomplete fashion, oriented towards feasibility concerning materials, financial resources, know-how and the helping hands at the do-it-yourselfer's disposal. It is not suggested that the economic transformation process in CEE is undertaken in an 'amateurish' way, thus reproducing the misleading argument of the "continuity of backwardness", (Wydra 2000:ch.4), but rather that the process of becoming a 'proper' capitalist territory can be understood as a pragmatic and creative application of recombined routines by individual and collective actors, with some of these redefined routines drawing (necessarily) on the historical experience of 'real existing socialism'.

The reading of János Kenedi's "Do it Yourself" recalls the complicated informal process and manner in which a private house was planned and constructed in Hungary during the socialist period (Kenedi ~1981). For some 'westerners', many of these conventions and practices (e.g. how to purchase land or how to 'organise' building materials) appear to be absurd or at least inefficient, as they would not make any sense in a capitalist institutional environment. But in socialist times, 'unusual' practices were necessary to realise certain

aims, in particular in an informal way. In the case of Upper Silesia, many informants identified this practice with the slightly euphemistic Polish term of *kombinować* which could be translated with a pragmatic (sometimes illegal) way of ‘organising’ or muddling-through. The case study reveals that the know-how of *kombinować* still plays a crucial role, in business relations too, and certainly compensates for the absence of functioning formal institutions so that it helps actors to survive economically in uncertain times of transformation. From this perspective, *kombinować* points to the existence empowered actors (in contrast to the ‘victims of transformation’) who shape transformation processes actively by the application of learned skills in the ‘real existing capitalism’.

### 7.3.2 Uncertainty, Risk, and Relationality

Following Storper, who borrows from Frank Knight’s seminal work “Risk, Uncertainty, and Profit” (1921), products and thus their frameworks of action are either amenable to a market which is *predictable* in the case of *generic* products or *uncertain* in the case of *dedicated* products.<sup>160</sup> In Knight’s take on institutional economic processes, the main role of the entrepreneur is to reduce uncertainty. In fact many tasks of company management are faced with uncertain outcomes, such as the discovery of new markets, the implementation of new production techniques or internal labour relations (North 1990:77). Thus, information must be acquired to reduce all kinds of uncertainty and transaction costs and to increase control over adequate investments. For Knight, profits and losses of firms exist only because of existing levels of uncertainty, thus “all profits would vanish, if the winning person or company could be indicated ex ante” (Brouwer 2001:93). The ability to

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<sup>160</sup> See chapter 2.3.1 for a discussion of the World of Production, including Figure 1. Storper gives several examples for his take on ‘uncertainty’ and ‘predictability’ for certain products. For example, generic-standardised products such as cars or steel of the Industrial World are usually faced with a predictable market “in the sense that its appeal to a large number of potential buyers at any given moment allows producers to estimate fluctuations of the market and *plan* their investments and allocation of resources (the law of large numbers)” (Storper 1997:109). On the other hand, dedicated products such as highly specialised IT products face uncertain markets, “because the ratio of number of products to number of clients reduces the feasibility of probability estimations of demand; the law of large numbers no longer works” (ibid:110).



predict a certain outcome is dependent on adequate information, but in the end decisions are rather based on 'educated' guesses and what Knight calls 'perception'<sup>161</sup> or subjective rationality of entrepreneurs or investors (instead of Weber's objective rationality), because information is always incomplete (see *ibid*:102). While Knight formulates these 'intuitive' aspects of 'doing business' in a rather non-relational way of game-like sportsmanship the outcome of this thesis suggests that subjective rationality is deeply embedded in socially constructed and spatially applied conventions of collective frameworks of action.

Storper's market distinction between predictability and uncertainty in the World of Production might be justifiable in well-organised and functioning markets, but is this the case for transformation or 'emerging' markets, too? Indeed, the case study reveals a *domestic* market which is characterised by predictability, in particular for generic products such as steel and coal or for products with a 'semi-high-technology' input such as cars. The predictability of this domestic market is still characterised by rather low private consumption patterns and low levels of state expenditure. It is precisely the lack of private and state capital liquidity which leads to what has been labelled in this thesis as a 'survival economy', with a rather less profitable, but at least a predictable unstable market.<sup>162</sup>

This is one reason why many Upper Silesian companies are looking at new markets abroad, a fact which will certainly accelerate in the wake of increasing integration with the EU. However, these *foreign* markets are apparently characterised by a certain level of uncertainty, even for generic products. For example, the highly profitable boom of steel products in recent times – triggered by external industrialisation efforts in China - was

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<sup>161</sup> 'Perceptiveness' is in Knight's work strongly related to the choice of investment projects and their timing. Investments are undertaken with the prospective of profits. Innovation can only be reached if investments are used to create new resources (Brouwer 2001:92).

<sup>162</sup> Focusing on the supply side, even if an entrepreneur has enough imagination to predict market expectations and thus the use of adequate investments, the lack of financial means in transformation economies (at least for 'indigenous' players) must be seen as a decisive hindrance in delivering these expectations. The scarcity of finance significantly shapes input/output relations but weaknesses may be compensated for by the application of informal or trusted relationships. This has been shown elsewhere in this thesis.

hardly predicted by this industry, at least not to this extent (the Indian entrepreneur Mittal seems to be an exception), otherwise more efforts would have been undertaken to rescue more of these industrial residues – not only in Poland, but elsewhere in Europe.

It can be argued here that the distinction between predictability and uncertainty of markets – and thus the proclamation of different product-oriented *frameworks of action* for innovation - needs more attention regarding access to uncodifiable information which is in the end interpreted by collective actors and their interpretation matrix (conventions) and not only aspects of quantity, as Storper suggests with the law of large numbers – as the main guiding force of uncertainty/predictability. For companies in post-socialist settings, the ability to extend their markets via learning seems to be a guiding element of becoming innovative, as this risk-taking is a precondition of survival in transformation periods.

Following North, innovations are not only related to the development of new, superior products, but are also related to organisational and institutional innovations aimed at reducing transformation costs. Writing about the economic rise of the ‘western world’ in the early modern period, North argues that “the final innovation was the transformation of uncertainty into risk” (North 1990:126).<sup>163</sup> Like Knight (and John M. Keynes), North sharply distinguishes between uncertainty and risk. The former condition is not calculable and thus unpredictable, “because it depends on the exercise of human judgment in the making of decisions” (Brouwer 2001:92), whereas risk is calculable *a priori* and can be treated as costs, e.g. in the form of insurance.<sup>164</sup> Many unexpected events might be

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<sup>163</sup> North specifies three major innovations which fuelled Europe's rise of long-distance trade in the early modern period: first, innovations that increased the mobility of capital; second, innovations lowering the cost of information; and third “those that spread risk” (North 1990:125).

<sup>164</sup> This formalistic distinction clearly touches philosophical questions, which cannot be discussed in detail at this point. Economic processes such as investments are based on expectations, e.g. in the form of future revenues, which are socially constructed and dependent on particular cultural and psychological contexts. We might be able to imagine the future and to adapt our actions to this imagination, but the imagination of future developments in the present is limited to what we (think we) know at this time and actual processes can only be controlled (and explained) to a certain extent. The introduction of calculable risks is in the end just a mathematical trick that can hardly hide the fact that economics is not a natural, but social science.

insurable (e.g. fires), but the outcome of investments are not, because calculations can only be done *ex post*. The analysis of transformation economies in the case of Upper Silesia reveals a high degree of uncertainty, caused by incomplete (or, rather, new and untested) formal institutions and recombinant informal institutions. But many of the regional firms – whether formally state-owned or newly established private firms – have learned to cope with this situation by learning and adapting to uncertain conditions. From this perspective, an organisational innovation process can be identified which aims at reducing transformation costs by applying tacit local knowledge and drawing on external economies, such as a well-trained labour force or proximity advantages in agglomerations.

The nature of transformation economies is precisely characterised by a high degree of uncertainty, or in the words of North by a low transformation level of uncertainty into risk. Only those economic players will survive who find a way to reduce uncertainty with the help of reinvented and recombinant conventions, embedded and applied in their direct environment. Additionally, those firms are forced to extend familiar economic activities and contexts to ‘unknown territory’ by investments with an unpredictable outcome. It is argued here that this move, e.g. in form of search for new markets or the development of new products or qualities, is to a certain extent safeguarded by a set of locally embedded untraded interdependencies and non-cosmopolitan knowledges, which reduce transformation costs and thus increase economic scopes of action, also on a global level.

Following Storper, risk in the economic world is also the outcome of increased reflexivity of economic activity, thus “manufactured by the reflexive learning of others” and “expressed through the redefinition of competition” (Storper 1997:31+30). Economic activities and the conditions where these activities are embedded are rapidly changing, “creating a moving target for success and a shifting minefield of risks and failure” (ibid.). In other words, different economic activities and decisions which determine failure or

winning have never before been closer to each other. While new opportunities and chances to succeed have doubtless risen with the help of reflexive capitalistic meta-capacities and 'reflexive modernisation', so have the risks of failure, not only in an economic sense (Beck 1992). This trend can be clearly recognised in post-socialist territories, probably even better than in established capitalist regions. The opening-up of former socialist and rather self-contained territories to the capitalist world has indeed created new sets of opportunities, which not only change the mode of production in these regions, but in the rest of Europe. While the relocation of production from the West to the East helps the restructuring process in particular in old industrial regions such as Upper Silesia, it also changes western well-established labour relations in favour for the employers. The quick learning process on how to attract and absorb western capital in former socialist areas has doubtless increased and redefined competition in all Europe.

In the case of Upper Silesia, this foreign capital influx creates at least four new major risks. First, as most foreign investments are automotive based, the danger occurs that a new mono-structural industry will be established in this region – endowed with 'vertical network power' - which makes it (again) vulnerable to global and macro-regional shifts in production and consumption patterns. Second, distinctive location advantages such as low wages for rather well-qualified workers are, alongside the geographical location of the region, a major incentive to invest for global corporations, but the risk arises that production will move on when wages adapt to EU-15 standards in the future and public bodies have not used time-restricted windows of opportunity in creative ways to hold fast foreign capital. Third, new intra-regional qualities of competition between different cities already exist and will further increase inequalities in future, a fact that will lead to accelerating depopulation in those places which have lost the race over foreign capital. Fourth, while the adaptation to new formal institutions such as the EU *acquis communautaire* and linked standards of production certainly create 'indigenous' winners

who are capable of learning quickly and extending or redefining their business relations, other companies will disappear from the market - even when their product is competitive – because an inappropriate set of untraded interdependencies exists or there are missing links to mutual supporting networks.

While these general macro risks are formulated, the question arises in what way ‘the region’ and its actors will use the suggested window of opportunity and contribute the technical innovation necessary to support industrial and regional restructuring. An emerging key ‘co-evolutionary’ process – seen as an intra-regional organisational and technological dynamic which incorporates the ‘holy trinity’ – is mostly acknowledged for ‘core regions’, while this kind of evolutionary dynamic needs much more effort in mature and cosmopolitan industries in ‘non-core’ regions (Storper 1997:69+80). In the following, the elements of the trinity and its linkages are discussed in more detail, to allow a deeper understanding of the economic transformation process in post-socialist contexts.

### 7.3.3 Technologies, Organisations, and Territory

Following Storper, ‘technology’ should “be thought of both as physical asset and as a cognitive framework that allows access to knowledge in the form of a practice or technique” (Storper 1997:69-70). While most of the physical assets in the form of technical know-how have long become cosmopolitan in old industries, it is suggested here that practices and techniques (the cognitive framework) are heavily dependent on a non-cosmopolitan and geographically bounded knowledge base – at least in the context of post-socialist economic transformation.<sup>165</sup> Some of these techniques are in fact learned skills which have their origins in the socialist command economy. Practices such as barter trade (chapter 5.1.1) have not only been continued in the transformation economy, but have to be

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<sup>165</sup> It is acknowledged here that non-cosmopolitan knowledge is “not necessarily associated with proximity of localisation” (Storper 1997:71) and thus that the relationship between this kind of knowledge and geographically proximity should be assessed and analysed from case to case.

seen as crucial spatially embedded practices helping to reduce uncertainty under the condition of complexity and dynamic changes in production and trade. This kind of non-monetary transaction is a 'hard' exchange-based relationship between business partners, in this way an input-output relationship or traded interdependency. At the same time, the opening-up of such a locally and regionally bounded relationship is unthinkable without drawing from underlying untraded interdependencies - the soft aspects of 'doing business' with commonalities, mutual trust (conventions) and precisely the complex technique which is necessary to minimise usually high transaction costs in these kinds of exchanges. While this technique is dependent on locally and regionally bound knowledge (e.g. knowledge about barter goods and partners), it also increases the reflexive possibilities for future relationships in the form of proper monetary exchanges. For the time being, it must be doubted that survival techniques such as non-monetary transactions increase technological regional innovation, but at least they offer the prospect of becoming part of this process when 'times are getting better'.

Storper argues that "organizations of actors are necessary to supply the product's demand for innovative capacities" (Storper 1997:122), and suggests that different forms of organisation have to be established for different kinds of products and internal innovative capacities. In developing this argument, Storper acknowledges that the 'network firm', which is usually associated with the emergence of western-style technology districts and a high degree of co-operation is not simply replacing the 'hierarchical firm' organised in oligopolies, and usually characterised by a classical spatial division of labour, which is the outcome of industrialisation and mass production. But the acknowledgement of the need to discriminate among organisational forms is also the acknowledgement that both worlds of organisation have a distinctive *raison d'être* in themselves, determined by their different needs for innovative product development, modes of production or their connectedness and different sets of action frameworks. There is no doubt that "networks are the fundamental

stuff of which new organisations are and will be made” (Castells 1996:168), but certainly, this reflexive quality and know-how is not an invention of the capitalist information age, but has been practised under socialism as well, admittedly in a completely different spatial-economic and social context. Without these abilities and underlying conventions - which have been adapted and extended in a creative process of recombination – many firms would not have survived the transformation period or would not have been newly established.

The connotation of an ‘old industrial’ region implies the smoke-stacked picture that such kind of regions are ‘lagging behind’, are incapable of innovation or are just to be doomed in the process of downsizing and entrenchment. All of these characteristics can certainly be found in the analysed region and have been subject of many studies in similar regions around the world. On the other hand, it is also necessary to identify processes which challenge the prejudices connected with such regions. First, besides *de*-industrialisation, current re-locational dynamics in Europe and elsewhere provide opportunities to the newly established territories in CEE – in form of *re*-industrialisation. Second, some large companies of the old era which survived the first transformation period in the early 1990s and afterwards with the help of state-subsidies were indeed able to restructure and to initiate organisational innovation – with increasing success. Third, a number of newly established SMEs of the IT sector at least give some reason for not thinking of it as an ‘old industrial’ region, but a region of change.

In the following four paragraphs, the different product worlds which can be found in this allegedly mono-structured region will be discussed with the help of Storper’s holy trinity in general and the conception of his *World of Production*, seen as collective and reflexive action for innovation, in particular (Storper 1997: ch.5; chapter 2.3.1 of this thesis). Embedded into the case of Upper Silesia, the following sections might interpret some of

the current economic transformation processes in post-socialist territories in terms of their conventionally-based and regionalised frameworks and scope for action, the regional worlds of production and innovation.

Probably one of the most surprising outcomes of this thesis is the nature of territoriality for firms of the *Industrial World*, defined by standardised products for generic markets. Storper characterises this world typically by long-term contracts over large geographical distances, caused by predictable market fluctuations (Storper 1997:125).<sup>166</sup> Indeed, the corporations of the automotive sector which operate in this *Industrial World* as well as the steel producing sector are indeed defined by this action framework. But the case of *Huta Katowice*, the biggest steel mill in Poland, has revealed an additional, more informal picture of business relations. In contrast to Storper's view that the nature of interdependencies of such kind of firms are few and traded (ibid:123) and thus hardly dependent on territorial proximity, the opposite has been discovered with the example of non-monetary external transactions. One reason for this 'deviant' behaviour certainly lies in the dynamic of transformation economies and their unstable, uncertain or emerging market relations. Another reason can be found in the internal process of restructuring and outsourcing – which aims to lead to complete privatisation in the best case. The former nearly completely vertical integrated steel mill, which has lost some of its production and service parts in the wake of restructuring has been forced to set up quasi-formal exchange arrangements (also with facilities that used to be part of the complex) drawing on geographical and social proximity to safeguard continuous profitable production, because of the constant lack of liquid capital (before the privatisation).

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<sup>166</sup> Only during the first few years - in "the breaking-in stage for truly new standardized-generic products" (Storper 1997:129) – are high levels of proximity supposed to be required, when brands and markets are created and found, and the technological trajectory of the product started.



In Storper's *Market World*, characterised by the supply of standardised products for dedicated markets, the main drive for product innovation is described as a "continuous rapid differentiation of standardized outputs, the key to which is rapid and expanding recombination of differentiated standardized inputs" (Storper 1997:125).<sup>167</sup> In this world, "territorial proximity can be of help, and both traded and untraded contractual and hybrid interdependencies are likely to be found" (ibid.). In CEE, the automotive supply industry can be identified as a player, which operates in a world where "immediate availability of vertical and horizontal suppliers is required, with little secure future promised to them" (ibid.). The typical spatial characterisations of the *Market World* are specialised production regions with a large number of firms. Indeed, the establishment of the automotive supply industry in Upper Silesia – which followed car manufactures mainly operating in the *Industrial World* – can be seen as a nationally supported project to diversify the economic basis of this region which used to be solely dependent on its former mono-structured coal and steel based industries. Most of the investments in this newly established specialised production region are foreign and direct, attracted by low tax and wage regimes in special economic zones – a process which is opening up the region not only to stiff competition with several regions within CEE that are following a similar path of re-industrialisation, but which also accelerates intra-regional competition among its cities. The characterisation of capital used in this process of re-industrialisation is crucial to understanding how the firms and corporations that are involved shape and define not only their territoriality but also their organisational structure, labour relations and capacity for technological innovation – an estimation that is largely absent from Storper's conception of the holy trinity, but which has to be acknowledged not only in the analysis of new capitalist territories such as in Central East Europe. In transformation areas, in particular, which are faced with drastic and quick changes of their social, economic and political fabric, the

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<sup>167</sup> Examples for companies of the *Market World*, which follow markets "extremely closely" are groups of SMEs such as central city garment or furniture firms in the US or flexible high-volume companies centred on large firms, which can be found in the Japanese consumer durables industries (see Storper 1997:112-113).

discrimination of capital helps to identify and understand different and simultaneous dynamics, because the “Characteristics of scale and ownership can influence a company’s response to changing macroeconomic conditions, its relation to policy formulation and its ability to respond to policy initiatives, its degree of locational flexibility and its locational requirements” (Massey 1984:18-19).

The *Intellectual World* has been described as an ‘innovation model’ within which specialised and varied products compete on generic markets via learning and not via price or quality (Storper 1997:i.a. 111). As the name of this world already suggests, the action framework heavily depends on R&D specialists who might be also part of the *Interpersonal World* in the form of dedicated communities in which they deepen their knowledge. The possible ‘hybrid membership’ of innovative actors in this world of production implies a high degree of external relationships which have a distinctive spatial quality: these communities are shaped by informal interpersonal ties or through formal interfirm alliances in a usually highly territorialised manner (Storper 1997:131). A main action capacity problem is the establishment and maintenance of these innovating groups, which share the same conventions and routines: “They must have their place *as communities*, and not simply as representatives of firms, whose interests are frequently too narrowly identified with particular product lines, not with whole technological spillover fields” (ibid., original emphasis). Indeed, territorialised R&D communities have been identified in Upper Silesia – or more precisely – in Gliwice, where many graduates of the highly influential Technical University maintain close relationships in the intersection of politics and business. As the case study has shown, members of this scientific community are not only responsible for the establishment of start-ups in IT technologies, but use their interpersonal relationships for the development of a common good – the economic restructuring of the city of Gliwice – in the form of the first Polish business incubator or the highly successful attraction of foreign investments.

While this – localised – community of specialists with a regional impact refers directly to the common ideals they share (e.g. the agreed convention of high quality scientific research), a critical point is how this group of people can be retained not only in the region, but also in Poland, when the salaries offered abroad are much higher. This exit option has been widely neglected in current discussions of the EU enlargement, which has been more preoccupied with the dangers of low-paid labour migration to the western parts of the EU. In fact, the danger of brain drain – and, for example, the provision of necessary income incentives for highly specialised innovational groups - should be a main concern of regional policies and newly established or existing firms of all sectors or sizes, if these localised communities shall survive. Paradoxically, the current spatial cost advantages of low wages and salaries in transformation economies of CEE could become a disadvantage in the middle and long run, when established innovating groups would start to migrate to better paid jobs in western Europe or elsewhere.

For Storper, the *Interpersonal World* is heavily associated with the emergence of high technology or industrial districts of the Marshallian model, as in the US or western Europe.<sup>168</sup> This world of production is characterised by a constant innovative invention and development of specialised low scale/high variety products for dedicated markets where “actors must have the capacities to increase the dedicated qualities of the product by deepening the application of their specialised knowledge” (Storper 1997:126). Indeed, the main capacity problem of the *Interpersonal World* is process- and not production-related, which refers to the development of communities in which such knowledge is defined and created. While close territorial relations between specialised producers and between producers and users are crucial in this world, the economic dilemma comes from the low

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<sup>168</sup> Indeed, in Storper's work 'The Regional World', the most detailed examples discussing regional worlds of production mainly refer to the Interpersonal Worlds of high-tech sectors (or at least highly specialised sectors) such as those in California, the 'Third' Italy (Emilia-Romana, Tuscany), and greater Paris region (Île de France), all 'successful' regions of established western territories (see Storper 1997: ch. 6).

scale/high variety mode of production which generates high overhead costs and a constant danger of theft by the *Industrial* or *Market World*, as specialised products become subject of standardisation due to more profitable production methods (ibid.).

It would certainly be overstated to interpret Upper Silesia as a technology district in the Marshallian sense, but surprisingly, elements of this world can be found in this part of Poland, which has traditionally been characterised as a declining core region of the *Industrial World*. Most obvious is not necessarily Upper Silesia's quantitative endowment of highly flexible and closely related start-ups, for example of the IT sector, but the regional policy and the financial and organisational EU support to establish and to develop this sector with the help of dedicated regional programmes, such as PRELUDE or RIS-Silesia (chapter 5.2.2). Indeed, these programmes have been described by the main political actors as their most important policy tool to initiate restructuring in the region with the purpose of promoting the capacities of specialist communities by deepening their knowledge. Such forms of diffusion-oriented economic policy have been identified as most appropriate for the *Interpersonal World*, because they "encourage horizontal relations between governments and firms" and "provide collective goods (services, especially) for clusters of products and producers, at a focused territorial level (e.g. the region)" (Storper 1997:126).

While the members of these programmes who were interviewed have regularly hinted that the static and bureaucratic organisation, a lack of initiative and risk-taking (not only of the state actors) as well as a 'different language' between economic actors, administrators and R&D organisations block progress and 'real' outcomes, the question arises why the 'right policy' has not (yet) succeeded in Upper Silesia. The answer to this question probably lies in the persistence of conventions and routines which were appropriate during the region's

era in the socialist *Industrial World*, but have lost their meaning and usefulness in the era of capitalist transformation.

While some economic actors – state owned and private – and political decision makers have creatively recombined their stock of conventions, the region as a whole, seen as a collective enterprise of reinvention undertaken by all kinds of actors, is a ship which reacts only slowly to changes of directions. The ambitious and sympathetic policy to initiate a metamorphosis from a smoke-stacked old industrial region to a high-tech district is doomed to fail, if the peculiar set of untraded interdependencies which have structured the region for decades are not strategically integrated into the economic policies. One might ask whether such a metamorphosis is actually feasible or just the dream presented by elected decision makers, who are more concerned to extend their political power at a regional and national level. Certainly, the economic and spatial problems of such a former functionally integrated region are too manifold, the level of entrepreneurship too low, the built persistence of the industrialisation too high. Nevertheless, it is definitely worthwhile seeking to initiate innovation and change at the fringes, even if the outcome is less than clear and success a lengthy business. At least the (growing) number of SMEs which actually operate in the *Interpersonal World* of a post-socialist territory legitimise the statement that economic change is even possible in such mono-structured areas, in which variety is an asset that needs to be developed.

## **7.4 Conclusion**

Early debates about economic transformation in former socialist countries revolved around the ‘right remedy’ to guide those countries through a process of system change. Accordingly to the advice of international consultants, Poland embraced shock therapy, instead of a gradual path of incremental institutional change. The outcome of this path

dependent decision were unexpected and surprised many commentators, as neo-liberal policies with a focus on macro-economic issues resulted in 'slumpflation' in the early 1990s, instead of stabilisation and a growing economy. International finance organisations remain preoccupied with looking at formal institutional issues and the 'right policies' that are capable of transforming previous command economies into functioning market economies. The main perspective is to build a capitalism by design, drawing from western models and assuming a short 'transition' period, with an outcome comparable to long-established capitalist spaces in the West. Instead, the existence of manifold modes of capitalism, even in Europe, suggests that the 'outcome' of system change might be something different, a 'mixed economy' and a process which is an economic transformation to something new. Without a doubt it can be said that the Anglo-American model of capitalism and its neo-liberal version of free markets and deregulation has seen an increasing political support in Europe over the last years, particularly in countries labelled as the new Europe – former socialist territories. At the same time it is safe to say that the impact of such policies transpires in different ways with different spatial and social effects – and this has been the topic of this thesis.

The up and downs of macro-economic national data applied to compare the 'progress' towards 'transition' does not help in the development of an understanding of how this system change might work, particularly at a regional, local and firm level. Following an increasing academic and political interest in regions as a nexus for economic 'development', a case study was chosen which can be identified as a microcosm of post-socialist economic, social, and political processes.

The distinction between formal and informal institutional change has been proven to be a useful concept in understanding ongoing processes on micro and meso levels. The identification and analysis of these informal institutions, also labelled as untraded

interdependencies, such as unwritten rules, conventions, and routines between different economic and political actors of the region has shown that economic transformation processes are more than the mere introduction of free markets and their accompanying legislations. It has been argued in this thesis, that a creative process of recombination brings together different sets of conventions, some of them reaching into the past. In contrast to many other studies, it is argued that old conventions and routines are not only helpful in times of economic uncertainty, but geographically and economically explainable. In this perspective, the transaction cost approach has shown how economic actors try to lower costs with the help of proximity advantages and embedded economic networks, even in the case of large-scale enterprises.

This process of recombination, or *bricolage*, has also been observed in the establishment of economic and political networks. The application of evolutionary concepts such as the identification of network properties and ties between different sets of actors provides evidence of dynamic and complex systems of learning. The learning region and organisation in post-socialist contexts learns how to transform practices into capitalist routines. This learning is supported and demanded by external players, often western regions and organisations, functioning as models of best capitalist practices. However, this is not a simple relationship of domination as between teacher and pupil, but a mode of power pointing to seduction prior to Poland's accession to the EU and the absorption of structural funds.

Not surprisingly, the analysis of socially constructed untraded interdependencies has been criticised for being 'fuzzy' and elusive. Indeed, the meaning and impact of routines on economic and political processes, embedded in local and micro-contexts such as in firms and public administration is difficult to capture. This research process relies on interpretation which might be hard to understand inter-subjectively. On the other side,

there can be no doubt that long neglected analysis of 'soft' economic and political practices are important for understanding how individuals, organisations and their networks interact and shape economies. It can be said that in quickly changing post-socialist societies this aspect is even more crucial than in 'settled' western territories, because of a faster change of formal and informal institutions.

The identification of non-standard business solutions has been an aspect in this thesis in terms of survival strategies, and the creative application of existing resources. However, 'non-standard' involves the interpretation of the western observer and needs thus a careful assessment. The identification of non-monetary transactions, such as the emergence and maintenance of barter markets and their impact on geographical spaces needs further research. The research has pointed to first possible reasons for this practice, but a more detailed analysis is desirable.

Although the employment of dichotomies such as West/East, socialist/post-socialist, (post) socialist/capitalist, state/market has been regular in this thesis, a few examples tried at least to question a sharp distinction between these terms. The question why it still might be to justified to speak of post-socialist spaces after more than 15 years into transformation is tricky to answer. But the continuation of elements reaching into Poland's socialist past are not only undeniable, but probably a necessity for the ultimate success of this process.



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**Economist, 24 July 2004 (US Edition):** Tax Wars: Corporate Tax in the EU.

**Financial Times, 1 May 2004:** Polish Steelmaker Faces Brussels Investigation over State Aid.

**Financial Times, 21 April 2004:** Bright Young Things Emerge from History: Well-run Businesses Have Emerged from the Wreckage of the Sovietbloc although there are still some Old-Fashioned Plants.

**Financial Times, 27 April 2004:** Slovakia Profits from Low Costs as Hyundai Joins Rush to New Markets.

**Guardian, The/G2, 12 June 2002:** How the Solidarity Dream Turned Sour, by Joe Klein.

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## Quoted Interviews

**Boroń, Kacper (04.07.2003):** Department Privatisation & Liquidation of State-owned Enterprises, *Śląski Urząd Wojewódzki w Katowicach* [Silesian Voivodship Administration; 'Voivod's Office'], Katowice.

**Czuber, Marek (27.05.2003):** Owner of small IT-company *ICC Sp. zo.o* [electronic control systems, chip cards etc.], Katowice.

**Donocik, Tadeusz (28.07.2003):** President *Regionalna Izba Gospodarcza w Katowicach* [Regional Chamber of Commerce and Industry in Katowice] and Vice President *Krajowa Izba Gospodarcza* [Polish Chamber of Commerce], Katowice.

**Dzienniak, Stefan (17.07.2003):** General Manager of *Huta Katowice*, Dąbrowa Górnicza.

**Gajdziński, Adam (26.06.2003):** Co-owner and Managing Director of Investment Company *Welux S.A.*, Katowice [not recorded].

**Giemza, Grzegorz (07.07.2003):** Director of Soft Loans Department, *Górnośląska Agencja Rozwoju Regionalnego S.A. (GARR)* [Upper Silesian Agency of Regional Development], Katowice [partly recorded].

**Górski, Kazimierz (10.07.2003):** Mayor, *Urząd Miejski w Sosnowcu* [Municipality of Sosnowiec], Sosnowiec.

**Górski, Tomasz (13.06.2003):** Former Director of *Wojewódzki Urząd Pracy* (until 12.06.03), [Voivodship Labour Office], Katowice.

**Gorzelik, Jerzy (21.07.2003):** Chairman of *Movement for an Autonomous Silesia*, Katowice.

**Grajcarek, Kazimierz (22.07.2003):** President of *Solidarność* National Secretariat of Mine and Energy and Member of the National Committee of *Solidarność*, Katowice.

**Jarosz, Marian (15/16.07.2003):** Vice Marshal of the Śląskie Voivodship (party: SLD, 'post-communist'), Katowice.

**Kamiński, Zygmund (12.06.2003):** Department Spatial Planning and Development, *Urząd Marszałkowski Województwa Śląskiego* [Self-Government of the Silesian Voivodship; 'Marshal's Office'], Katowice.

**Kańtoch, Halina (18.07.2003):** Member of *Rada Miejska Katowic* [City Council of Katowice], party: PO (liberal), Katowice.

**Klima, Jerzy (15.07.2003):** Former Chairman of *Kompania Węglowa* (Febr-June 2003), now Director of the Regional Bank *Górnośląski Bank Gospodarczy S.A.* [Upper Silesian Economic Bank], Katowice.

**Kowarska, Joanna (11.07.2003):** Director Privatisation & Liquidation of State-owned Enterprises, *Śląski Urząd Wojewódzki w Katowicach* [Silesian Voivodship Administration; 'Voivod's Office'], Katowice.

**Leśniowski, Stanisław (15.07.2003):** Department Restructuring of State-owned Companies, *Górnośląska Agencja Przekształceń Przedsiębiorstw SA (GAPP)* [Upper Silesian Agency for the Restructuring of State Companies], Katowice.

- Lidwin, Ewa (18.06.2003):** Director City Investments, *Urząd Miasta Katowice* [Municipality of Katowice], Katowice [not recorded].
- Łobzowska, Bożena (23.07.2003):** Director International Relations *Regionalna Izba Gospodarcza w Katowicach* [Regional Chamber of Commerce and Industry in Katowice], Katowice [not recorded].
- Łuczak, Anna (03.06.2003):** Director Local Business Activities & Transformation of Property, *Urząd Miasta Katowice* [Municipality of Katowice], Katowice.
- Miażek, Halina & Marek Zaród (22.07.2003):** Department Investment Control, *Ministerstwo Skarbu Państwa, Delegatura w Katowicach* [Ministry of the State Treasury, Delegation Katowice], Katowice.
- Morski, Ferdynand (23.06.2003):** Director of The Silesian Union of Municipalities and Districts, Katowice.
- Moszyński, Janusz (08.07.2003):** Deputy Mayor, *Urząd Miejski w Gliwicach* [Municipality of Gliwice], Gliwice.
- Napierała, Wojciech & Andrzej Szymborski (12.06.2003):** Former and current Director, *Agencja Rozwoju Lokalnego Sp. z o.o* [Local Development Agency Ltd.], Gliwice.
- Nowak, Anna (24.07.2003):** Sales Director *Tenneco Automotive Polska Sp. z o.o.*, Rybnik [interviewee decided to refuse recording after 20 min.].
- Olbrycht, Jan (18.07.2003):** Former Marshal of the Voivodship of Silesia (1998-2002), Member of the Sejmik (party: AWS, post-Solidarity), former mayor of Cieszyn, Katowice.
- Pająk-Gruszczyńska, Danuta (10.07.2003):** Director City Development, *Urząd Miejski w Sosnowcu* [Municipality of Sosnowiec], Sosnowiec.
- Palmen, Luk (26.06.2003):** Project Manager of RIS-Silesia, employed by Marshal's Office and GAPP, Katowice.
- Romańczyk, Justyna (17.12.2002):** Manager at *Katowicka Specjalna Strefa Ekonomiczna S.A. (KSSE)* [Katowice Special Economic Zone Co.], Katowice.
- Rytiński, Romuald (28.07.2003):** Managing Director of *General Motors Poland & Plant Director Opel Polska*, Gliwice.
- Sambura, Andrzej & Teresa Wesłowska-Tannenberg (02.06.2003):** General Manager and Co-owner of *Ispik S.A.* [Institute of Spatial and Cadastral Systems Ltd.], Gliwice.
- Smolorz, Michał (14.06.2003):** Editor of *Dziennik Zachodni*, largest regional newspaper in Poland, candidate for the mayor of Katowice in 2002, Katowice [not recorded].
- Sołtysek, Elżbieta (02.07.2003):** Director of the EU-Integration Office, *Śląski Urząd Wojewódzki w Katowicach* [Silesian Voivodship Administration; 'Voivod's Office'], Katowice.

- Szczerbowski, Marek (16.06.2003):** Department European Integration and Promotion, *Fundusz Górnośląski SA* [Upper Silesian Fund SA], Katowice.
- Waluga, Iłona (11.07.2003):** Director Research & Projects *Górnośląska Agencja Rozwoju Regionalnego S.A.* (GARR) [Upper Silesian Agency of Regional Development], Katowice [not recorded].
- Wojciechowski, Konrad (02.07.2003):** Professor for Automatics and Control Theory, Technical University of Gliwice.
- Wojciechowski, Maciej (06.06.2003):** Vice-President of *Śląski Serwis MSP*, [Silesian State Agency for SMEs]. Training, (Re-) Qualification, Consulting Centre, Katowice [not recorded].
- Wycisło, Henryk (14.07.2003):** Director Human Resources of *Fiat Auto Poland*, Tychy [interviewee refused recording].
- Zych, Marian (29.05.2003):** Director City Development, *Urząd Miasta Katowice* [Municipality of Katowice], Katowice.

## Appendix: Methodological Choices

As already indicated in chapter 1.2.2, the following main research foci frame the design of this thesis. First, the thesis seeks to explore the limits of Michael Storper's interpretation of the 'reflexive turn' in economic geography, in particular the interrelations of organisations, technologies, and territories in old industrial and post-socialist contexts. Second, the present and future of territories is not only dependent on the meshed interplay of reflexive economic actors, but also the functioning of formal political and administrative institutions and their peculiar geographical modus. Since the political realm of former socialist territories is as much the subject of transformational processes as 'the economy', it is necessary to conceptualise this interrelated part of the transformation - and, in particular the relationship between the political and economic actors in a region. In doing this, the thesis follows a two-tier strategy which departs from Storper's holy trinity approach by focusing on these two aspects of change, although it is questionable whether a clear-cut distinction between 'the political' and 'the economic' is always possible or desirable, particularly in countries of CEE.

In order to explore the main research foci, it was necessary to identify a post-socialist and old-industrial territory. The initial idea to conduct research in Upper Silesia was developed during a study trip to another old-industrial region in the year 2000 - the Donetsk Basin in Ukraine. During this trip the author met the friend of a researcher, Dr Kerstin Zimmer, *Johann Wolfgang Goethe-Universität Frankfurt am Main*, who at this time was involved in an international research project on the "making of regions in post-socialist Europe" (Tatur 2004). Zimmer, who was undertaking research in Donetsk, facilitated contact with one of the project partners, responsible for the case study of Upper Silesia, Dr Adrian Cybula, Sociology Department of the Silesian University, Katowice. After an exploratory field trip to Upper Silesia in December 2002 and first interviews with selected administrative bodies, the author concluded that this region was indeed suitable and attractive for an in-



depth research, providing a case of an older industrial region in transition and offering good access to key regional actors and documentation.

## **The Region**

Upper Silesia has frequently been identified as a ‘disaster region’ of Europe which is faced with an ongoing process of decline and thus a severe transformation of its economic, social, and political fabric. Certainly, a number of similar ‘mono-structured’ regions exist in many European countries. However, Upper Silesia is one of the biggest agglomerations of its kind on the continent and can be seen to be a model in microcosm not only for the analysis of industrial change, but also of potential transformation into a post-socialist territory. After more than 15 years of this process a good part of its heavy industrial base is still faced with the threat of, or in the process of, privatisation, substantial restructuring and downsizing of industrial output. At the same time new spatial economic dynamics are clearly emerging which have been identified as typical features of post-socialist change: first, the rise of substantial foreign direct investments mainly from the automotive sector and second, the emergence of small and middle-sized firms, not only in the IT sector, but also in ‘innovative’ and technology-ridden industries. These parallel processes of economic change and transformation make it possible to speak of Upper Silesia as an old-industrial area becoming a post-socialist space.

Processes of transformation from an authoritarian one-party state and its centrally-planned economy to a liberal democracy and market relations are frequently linked with the emergence of ‘politics of identity’. This socio-cultural dimension of transformation is often identified as an important aspect and motor of becoming a post-socialist space. The selected region is particularly suitable for studying this dynamic. (Upper) Silesia’s rich and complicated history has generated differentiated mindsets of spatial identity over the last few hundred years. The historical impact of diverse political powers has left still

identifiable traces of localised identities and mental affiliations. During the post-1989 transformation a rediscovered and socially constructed cultural diversity has been used politically as a vehicle for public mobilisation, legitimisation and facilitator for accepting the pitfalls of capitalism. The selected region and its spatial-cultural peculiarity is a model case for analysing the social-political aspects of becoming a post-socialist space, not only because of its strongly presented regional identity and its political instrumentalisation, but also because of the dominant Polish understanding (at least outside the region) that, in some sense, the region is 'un-Polish'.

For these reasons a series of interviews have been conducted, covering the recently reformed regional two-tier administration of Upper Silesia, the Marshal and Voivod and their departments. After years of de-centralisation and a new momentum for regional thinking, in particular the creation of new institution, the administration of the Marshal was analysed in order to identify the power relations between the local level and the region, but also to consider the reform efforts in terms of their possible impact on strengthening the economic and political leeway for regional-based action. Moreover, 'the making of a region' and its re-imagination in terms of attractiveness for foreign investors were closely investigated during the research in order to assess the region's efforts to compete for capital investment (FDI) with other regions in CEE and the rest of Europe. Interviews were conducted not only with officers and politicians in the regional administration, but also with key actors in regional and business development agencies to clarify their 'indigenous' strategies and visions. Most of these interviews were set up with the help of the information department of the Marshal's administration.

## **The Cities**

As well as looking at the regional scale in terms of political, social and economic developments, it is also necessary to relate these developments to those taking place on a

local scale. Analysis of the diverse and complex relations between the local and the regional level is crucial in developing an understanding the peculiarity of post-socialist transformation. In this particular case such an approach is still more necessary, because post-socialist regions have only recently gained a new set of authorities so that 'regional thinking' is a relatively new development, even if in the case of Upper Silesia it is based on historical parallels. In other words, post-socialist regions are still in a weaker position than their cities and communes, although the region's power base and possibilities of intervention are without doubt growing with the help of EU funds. Upper Silesia is made up of a series of interconnected cities all of which are faced with similar problems and challenges. Despite having a similar economic fabric and the same point of departure in 1989, differences in the urban development of these adjacent cities are quite noticeable (and rather surprising). This is the second reason why, in this thesis, cities are analysed in order to understand the interplay between strong mayors on the one side and the emerging regional administration on the other side.

Since it was not possible to integrate all cities and their development into the analysis, a selection of cities was necessary. First of all, the regional centre, the administrative capital of Upper Silesia, Katowice, was selected in order to obtain a more detailed picture of the local development of this city, which is regionally important in terms of economic and political strength. Although it was not possible to conduct an interview with the mayor of Katowice, several interviews with directors of the city administration and the political opposition made it possible to construct a sufficient overview of the main development and political issues facing the city. Alongside Katowice, the cities of Gliwice and Sosnowiec were selected for a more profound investigation of local-regional relations. Gliwice was selected for a local case study because it is one of the Polish cities with the highest rate of FDIs, making it possible to explore how the local authorities managed to reach this status of being 'successful'. In contrast to other cities, the contact to one of the mayors, who was

also personally in charge of the attraction of GM *Opel* to the city, was relatively easy as local decision makers are well connected through a network of alumni of the Technical University. The contact to the city hall was facilitated by the director of the local development agency, who also once belonged to the team in charge of the GM *Opel* investment project.

While Gliwice might be a case of ‘successful local restructuring’ through the attraction of foreign investment, Sosnowiec is by contrast a low-profile case, or, in other words, an ordinary regional city. The inclusion of Sosnowiec, a city without an obvious distinguishing characteristic (Katowice: regional capital; Gliwice: ‘Polish capital of FDIs’), was also helpful because of its historical affiliation to the Russian Empire and the Dąbrowa Basin. In this way, the case contributed to the author’s reflections on cultural differences between the ‘proper’ Upper Silesia (west) and the adjacent Eastern region, the complex politics of identity in the region. The interview with the mayor of Sosnowiec, together with a delegation of directors of the city hall and the head of department for urban development was facilitated by the director of the Silesian Union of Municipalities. The high-profile interviews in Gliwice and Sosnowiec impressed the author not only because all interviewees appeared to be very well prepared and interested in the research, but also because the author’s inquiry was directly handled and co-ordinated by the mayors offices. Thus, the author and his research was taken seriously, a fact which might have positively influenced the overall picture in contrast to the city of Katowice where the mayor refused to be interviewed despite months-long efforts, approached by different channels.

In the end, the author is fully aware that the cities included as cases in the research are highly selective and of course not representative. Nevertheless, they offer a range of experiences, making in-depth analysis possible. It might also have been desirable to undertake fieldwork in cities which might be placed in the category of ‘unsuccessful’ cities

in the region. Not surprisingly, however, many of those city halls which were contacted, refused to be interviewed. The benefit of focusing on more 'successful' cities is, in any case, that it makes it possible to escape from stereotypical representations of older industrial regions in CEE as economically hopeless and unsuitable for development.

## **The Industries**

As explained in the main text of the thesis, it was decided to focus on three particular industries in order to interrogate Storper's assumptions of the holy trinity of organisations, technology, and territory. First, the old industrial heavy industries were selected, not only because they still shape the image and character of the region and many of its cities, but also because they are subject to the most dramatic downsizing, restructuring, and privatisation processes, probably in the whole of Europe. As a result, the coal and steel industries of Upper Silesia are not only a focus of national concern as part of the process of fostering Poland on its path to a functioning capitalist country, but are also subjects of international concern because they directly touch on the country's relations with the EU as well as with the World Bank as one major source of finance for the restructuring process. The setting up of interviews was not the easiest task, as the 'politicisation' and high public profile of these industries make actors suspicious towards outsiders. Thus, in the case of the former chief of *Kompania Węglowa*, the biggest European coal company, the interview could only be arranged through informal personal channels in Katowice. In the case of the executive director of the steel mill *Huta Katowice*, which was in the process of privatisation during the field research in 2003, an interview could likewise only be realised with the help of an employee of the Silesian regional administration, who was personally engaged in setting it up.

Second, the automotive industry was selected as a case study in order to analyse the second major economic dynamic in CEE in general and Silesia in particular: namely, the influx of

foreign direct investments. The highest proportion of FDIs in Central and Eastern Europe has been realised by this industry and its suppliers. In the case of Poland, the highest single foreign investment was realised by GM *Opel* in Gliwice, Upper Silesia. There is no doubt that other industrial sectors could also provide evidence of interesting and dynamic developments in the region where the fieldwork was undertaken, but it is safe to say that the automotive industry makes it possible to explore the most sophisticated supply chain networks in CEE and the rest of Europe in comparison to other industries with high investments, for example the food industry, retail, banking and financing etc. From this perspective, the automotive industry was selected to make it possible to develop an effective overview of the region's connectedness to the outside world and, at the same time, to analyse the intraregional relations of this sphere of production. After months of seeking to arrange a meeting with the GM *Opel* CEO, the interview only took place just a few days before the end of the field work with the personal help of the mayor of Gliwice. The interview with *Tenneco* was facilitated with the help of a regional development agency, because this supplier is integrated in a regional programme for the fostering of entrepreneurship. However, when the author asked questions dealing with other issues (e.g. the company's strategy in CEE and supply chain issues), the interviewee immediately asked to switch off the recorder and later decided to terminate the interview early, because she was not prepared to answer those questions.

Third, a number of small and medium-sized companies, in particular of the emerging IT sector and their intraregional and interregional strategies, were analysed. Support for small and medium-sized companies has been identified as a main political topic, as it is stated in the regional development programme of the region. It is the most important economic policy field directly controlled by the Marshal's administration through a number of EU-funded projects. Thus, an analysis of activities in this area gives a picture of indigenous strategies to strengthen regional capacities and to become a capitalist territory with an

'innovative stocking' of economic actors, a 'species' which tends to be missing because of the 'mono-structured' economic fabric of Upper Silesia. The interviews with some companies involved in the regional projects were facilitated by the regional development agencies. Moreover, other interviews were conducted with the regional administration which controls the projects and the regional agency which implements them.

### **The Interviews and Research Material**

In total, about 60 interviews were conducted. 51 interviews were recorded with a conventional dictaphone, more than 60 hours of data. In around nine cases either the interviewees rejected the use of a tape recorder or in a few cases the recording failed for technical reasons. Sometimes interviewees rejected the use of a tape recorder in the course of an interview, or the author offered to turn the dictaphone off, in particular when sensitive information was given. Most of the interviews were semi-structured, following the key questions and, depending on the interview partner, were supplemented with specific questions related to the context of the organisation. Comprehensive notes were taken of all interviews and have additionally informed the transcriptions and the interpretation of the data. A good part of the data has been transcribed, in particular 'key interviews', which have been used for direct quotation, and non-transcribed data has also been used in order to strengthen arguments.

Most interviews were conducted between May and July 2003, in English, Polish or German (decreasing frequency), sometimes with professional interpreters or with the help of (voluntary) assistants of the organisation within which the interview was taking place. As neither the author, nor the interviewees were native English speakers, considerable effort has been placed on ensuring the accuracy of particular sensitive or significant information during interviews held either with or without interpreters or assistants. Direct quotations in the text have only been slightly corrected regarding their grammatical and

semiotic correctness, in order to preserve the idiom and to understand the content. All interviews in the Polish language were conducted with the help of interpreters or assistants, as the author's command of the Polish language is still insufficient for that level of communication. Surprisingly, a number of the interviewees offered the author the opportunity to conduct the interview in German.

As well as the interviews, the thesis is informed by the extensive review of literature covering the origin and latest development of relational economic geography approaches, theories of transformation and institutional change, as well as the specific transformational processes in Central and Eastern Europe, Poland, and Upper Silesia. Moreover, 'grey literature' was analysed in order to supplement the gained information with 'internal' data such as newsletters, reports, working papers, theses, government, regional and municipal documents, bulletins, fact sheets, conference proceedings, and statistical material.

## **The Research Process**

The research process was realised in three major steps. During the first year, the author conducted a comprehensive literature review which led to the identification of the main theoretical and analytical framework suitable to handle the research questions and the main thesis. After the first main literature review and time of consideration, it was decided to focus on the work of Michael Storper and his interpretation of the 'reflexive turn' in economic geography. It is fair to say that his body of work currently represents the most comprehensive approach to relational economic geography. Because it draws on the experience of the developed capitalist countries of the 'West', in taking Storper's work further it is necessary to verify his assumptions in other, non-western contexts. It was hypothesised that his approach offered a spatial perspective likely to be helpful in understanding transformational processes in Central and Eastern Europe, but that some of his reflections on major terms might have to be adapted to the specific contexts in those



countries and regions. For example, it can be assumed that Storper's notion of 'reflexivity' has a different meaning and occurrence in transformational countries, as the recently established set of formal institutions is not (yet) functioning or at least works in a different mode than in the west. Thus informal networks and their routines play a crucial role in substituting the lack of formality.

Storper's concept of the 'holy trinity' - organisations, technology, and territory - was used as a major analytical framework in this thesis. For this reason, his seminal book 'The Regional World' was extensively studied and reflected on. In contrast to Storper, it was necessary to persevere with a clear-cut distinction between 'organisation' and 'institution' in order not to lead to confusion because of the ways the terms are used in the second major body of literature which was used in the research – that is theories of (post-socialist) transformation. In this thesis, organisations are understood to include all kinds of economic and political actors, in particular enterprises, agencies, departments, etc. At the same time, the second concept, technology and linked notions of innovation, was used in a rather broad sense. So, for example, in the thesis, it is assumed that a government department or old steel mills may be capable of acting innovatively, even if this acting is not necessarily based on the use of technology, at least as commonly understood. In this context, 'technology' is also interpreted as a process of learning, and combines in particular the 'know-how, know-who, know-what, and know-why'. The examination of Storper's analytical framework together with the extensive literature review on transformation led to the elaboration of research questions and a research plan for the field work.

It was not the aim of this thesis to deliver a sharp-lined spatial definition of the area of Upper Silesia (so, for example, some rural parts of the historical Upper Silesia are not covered in the research while other parts have been included). Rather, the arguments of the thesis are rooted in the assumption that regions are open and internally diverse and is rather

focussing on the permanent tension between the global and the local without confronting the two scales irreconcilably.

The second step of the research was the field research. During a first exploratory research trip to Katowice in December 2002, the main economic and political organisations of the region were identified also with the help of Dr Adrian Cybula, who works in the Sociology Department at the Silesian University. Preliminary preparatory interviews were conducted and contacts with other potential interviewees were made during this first trip. The main research visit took place between May and July 2003. The concept of the 'holy trinity' guided most of the interviews. This means that an attempt was made to gain information relevant to all three major parts of the concept. Thus, the questions focused on the organisation interviewed, how and with whom they worked, for example, or questions related to current and past projects. Another main aim was to identify connections to and relations with other organisations and territories. The topic of 'technology' was regularly covered in the sense of concrete innovation processes and the tools the organisation used to establish, to learn or maintain these processes.

The third research step involved the analysis of the field work data, the elaboration of the thesis and the writing-up phase. Many of the interviews were transcribed, classified, and analysed according to the research plan and the research questions. Moreover, research literature was revisited, supplemented and scrutinised towards issues which were discovered during the field work. This comprehensive examination led to the in-depth development of the argument of the thesis. Many of the assumptions of the pre-field work could be revised and/or expanded. First results of the thesis were presented during the AAG 2004.